

# THE REAUTHORIZATION OF OPIC

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HEARING  
BEFORE THE  
SUBCOMMITTEE ON TERRORISM,  
NONPROLIFERATION, AND TRADE  
OF THE  
COMMITTEE ON FOREIGN AFFAIRS  
HOUSE OF REPRESENTATIVES  
ONE HUNDRED TENTH CONGRESS

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## THE REAUTHORIZATION OF OPIC

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THURSDAY, MAY 24, 2007

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON TERRORISM, NONPROLIFERATION,  
AND TRADE,  
COMMITTEE ON FOREIGN AFFAIRS,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 10:13 a.m. in room 2172, Rayburn House Office Building, Hon. Brad Sherman (chairman of the subcommittee) presiding.

Mr. SHERMAN. As you may know, the Cannon Building is being evacuated.

I will call the hearing to order, and we will start with Mr. Green.

Mr. GREEN. I appreciate everyone waiting so I can serve on Foreign Affairs. Mr. Chairman, I know seniority doesn't mean anything when you are sitting here. I want to thank you for holding the hearing on the reauthorization of the Overseas Private Investment Corporation.

Robert Mosbacher is a long-time friend from the Houston area, someone I have known and worked with for many years. We shared working on the Greater Houston Partnership, and he has President and CEO of Mosbacher Energy. He has also been on the social side with health care issues, early childhood development, the Community Family Center, what used to be called the Chicano Family Center, and your support for early childhood, although today we are not here to talk about that.

I think there are two main areas for improvement we should look at when we are reauthorizing OPIC and the effort they are doing now in protecting workers' rights and protections and promoting services to smaller and medium-sized businesses. Over the last several years, OPIC has taken steps to address both these issues, but more can always be done.

I am still concerned about the strength of OPIC's statutory language on workers' rights as well as its practices to collect information on workers' rights and labor violations in these overseas project sites; and I hope to hear from our witnesses on this issue to see if there is something we should address in the reauthorization, if they have specific recommendations.

Labor standards and workers' rights are something we can and should promote throughout our foreign and direct investment. OPIC has made significant improvements in its move to providing services to smaller companies, and I hope we can move down that path.

I know personally I have small businesses in our district that could not do international commerce without the cooperation both of our U.S. Department of Commerce but also OPIC, because they just couldn't afford send their product without hopefully getting paid for it. You can't spend a month's work in a small machine shop and not know you are going to get paid for your work.

Over the years, the private sector has developed many of the financial services provided by OPIC, as well as insurance for political risk. The establishment of the Small and Medium Enterprise Finance Department has contributed greatly to this mission. I believe focusing on these smaller businesses puts OPIC back in the role it was meant to assume when it was created four decades ago, and I applaud OPIC's move toward servicing small- and medium-sized businesses and believe we should do what we can to promote more of this in the reauthorization.

Again, Mr. Chairman, I am sure I can speak for our minority side that they wouldn't disagree with my opening statement either; and I will be glad to yield back my time.

Mr. SHERMAN. Thank the distinguished and senior gentleman from Texas.

I am pleased to have as our witness the CEO of OPIC, who I am sure will indulge me for this brief 17-page opening statement.

OPIC's primary mission is to promote economic development in the world by assisting U.S. businesses to responsibly invest abroad in developing nations. Equally important is OPIC's ability to use its programs to promote core internationally recognized labor standards, to work for environmental protection, and to reach out to small- and medium-sized U.S. businesses, to help create jobs, increase U.S. exports, and to do it all at no net cost to the Federal Government.

Not only do I applaud you balancing all of those objectives, but it is my objective to give you one more, and that is to play a role in convincing international corporations to cease investing in the terrorist states of Sudan, Iran and North Korea. It is a tall order, but I am confident that you can take on one more responsibility.

This could be done by mechanisms, and I look forward to working with you to devise these mechanisms to screen OPIC's applicants on the basis of their involvements in those three target states—Iran, Sudan and North Korea—not just the particular subsidiary that is applying but the entire affiliated group of corporations.

To say this entity isn't investing in North Korea—it is just that entity—makes no sense when you have one affiliated group of corporations under common control and common ownership. I expect that this would have a limited effect on OPIC, since virtually all of the companies you assist are not investing in those three target states. But the goal is to send a message to every conglomerate in the world that if you want your United States subsidiaries to be effective in international commerce you don't want to invest in Iran, Sudan or North Korea. I think if given a choice between doing business here and doing business there, they will reflect that when they are doing business there they face not only limited economies to invest in but very substantial risks.

In addition, there is a moral imperative prohibiting taxpayer assistance from going to those who assist our enemies. Such a policy would be an important part of our larger investments to bring economic pressure onto Iran, Sudan and North Korea; and we could develop this as a model to be used in other Federal agencies as well.

As I have stated, of course, very few of those companies doing business with OPIC also do business with those targeted states. There are a few who do so through their foreign subsidiaries, and there are also those OPIC applicants who are subsidiaries of foreign conglomerates, and those conglomerates would be asked to choose between OPIC assistance on the one hand and investment with terror on the other.

I look forward to working with you and your staff, with my colleagues, to try to define what level of corporate investment in the target states should be considered disqualifying and whether there is a category that should be thought of as a reason perhaps to turn down the project but not fully disqualifying.

Let's look at OPIC's other objectives. I mentioned working with our small businesses. It is only a decade ago that Congress demanded OPIC focus on small- and medium-sized business. At the time, over 80 percent of their work was with large corporations.

My colleagues and I asked OPIC to change course. I was particularly concerned personally about OPIC shutting small- and medium-sized business out needlessly with complicated paperwork, bureaucracies, and requirements for certified audits that were just kind of part of the package and not really thought through as to whether such certified audits were necessary from OPIC's perspective.

OPIC's management set up a Small and Medium Enterprise Finance Department to assist applications for direct loans. The agency worked to reverse a trend we had seen a decade ago. Today, over 80 percent of OPIC's projects involve small- and medium-sized businesses. Consistent with this trend, I expect to see a rise in the percentage of not just the number of projects but the value of loans and insurance that go to U.S. small- and medium-sized businesses.

Labor rights are an important aspect for what we are trying to do; and OPIC can have two effects, over there and back here. At the core of OPIC's mission is promoting responsible investment in developing countries, and this includes guarantees for internationally recognized labor rights. OPIC also is charged with not outsourcing American jobs, and I am particularly cognizant of the positive impact OPIC could have and does already have to some degree on reducing our trade deficit.

Protecting the environment is another objective I mentioned. OPIC's mandate dovetails with the growing international movement of going green. In the last few years, the agency has decreased its emphasis on oil and gas projects. Not that oil and gas aren't needed by American consumers in the world at least for quite some time into the future, but OPIC has taken the lead and put forward new initiatives on improving.

The transparency of OPIC's environmental program are also under way. Despite these success stories, we need to do more on environmental issues. The agency ought to focus more on renew-

able energy, combating global warming, and consensus building with indigenous communities. I look forward to hearing recommendations today, both from OPIC's CEO but also from our second panel on how OPIC can better achieve its environmental goals.

Given these challenges I expect OPIC to meet, I hope that OPIC can meet these challenges on an even greater scale. OPIC has earned a substantial profit. I look forward to learning what the size of that profit has been. But the purpose of the profit should not—at least those profits earned in the future—should not be to create a huge cash hoard within OPIC. Nor is OPIC's primary mission to reduce the U.S. budgetary deficit. Rather, this surplus profit, if you will, can be used to identify projects of special merit and to charge a smaller fee to those projects so that they can go forward.

While overall OPIC charges fees which are high enough not only to pay for the risk on an actuarial basis but actually to make a profit, that doesn't mean every deal has got to meet that standard; and there are some that are so good in terms of the development opportunity they offer abroad and the goals of labor standards and the environment that perhaps ought to be financed at what your actuaries and risk evaluators will tell you is a "loss to OPIC." Not every deal has to be profitable.

Wrapping up, and with the indulgence of my colleagues, there are two camps, polar opposites. One camp says we shouldn't reauthorize OPIC. The other one says we should just punch your card, give you another 4 years, and send you on your way. I am not with either of those camps. I believe we should reauthorize OPIC, but only if, and I am sure we can, we improve OPIC and its charter and achieve the goals I have outlined.

With that, I yield to Mr. Manzullo for his comments, if he has an opening statement.

[The prepared statement of Mr. Sherman follows:]

PREPARED STATEMENT OF THE HONORABLE BRAD SHERMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA, AND CHAIRMAN, SUBCOMMITTEE ON TERRORISM, NONPROLIFERATION, AND TRADE

I am pleased to call to order the hearing today on the Reauthorization of the Overseas Private Investment Corporation (OPIC).

OPIC's primary mission is to promote economic development by assisting U.S. businesses to responsibly invest abroad in developing nations. Equally important is OPIC's ability to use its programs to promote core, internationally recognized labor rights, to guarantee environmental protection, to reach out to small and medium sized businesses, to create U.S. jobs, and to increase U.S. exports, while having no net cost to the federal government. I hope to convince the agency to take on the additional responsibility of deterring investment in the terror sponsoring states of Iran, Sudan, and North Korea. It is a tall order, but I am confident that OPIC will take these mandates as seriously as it has previous Congressional priorities.

*OPIC and National Security Objectives—Confronting Corporate Investment in Rogue Regimes*

As noted, one of my priorities for this hearing is to encourage the adoption of mechanisms to screen OPIC's corporate applicants on the basis of their involvement in rogue states such as Iran, Sudan and North Korea. I expect that this would have only a very limited impact on OPIC's programs, as only a handful of companies would be affected. Only a handful of companies that have benefited from OPIC's programs have operations, investments or have done business in, or with, these countries.

In addition to a moral imperative—prohibiting taxpayer assistance from going to those who assist our enemies—such a policy could be an important component of our larger effort to discourage corporate investment in Iran, Sudan, and North

Korea. It could serve as a model to be employed across government programs that benefit corporations, including especially procurement.

Most direct beneficiaries of OPIC's programs are American companies. Most of these firms are prohibited from doing business directly with these worst of regimes by American sanctions. But some American firms do business with these countries through their foreign subsidiaries. Also, OPIC-supported projects often involve an American beneficiary working in consortium with various foreign firms, some of which may be doing business with these states. These foreign firms may end up being significant, if indirect, beneficiaries of OPIC.

I hope to use this hearing to determine what level of corporate investment should disqualify a firm from OPIC's programs, and how low to set the bar in cases where the indirect beneficiaries may be doing business with our enemies.

#### *Working for Small Businesses*

It was only a decade ago that Congress demanded an accounting of OPIC's failure to work with small and medium sized businesses. At that time, over 80 percent of their work was with large corporations. My colleagues and I asked OPIC to change course. I was particularly concerned that smaller businesses were being shut out of OPIC by needlessly complicated paperwork and bureaucracy. I am pleased to see that OPIC took our concerns seriously. OPIC's management set up a Small and Medium Enterprise Finance Department (SMEF), to assist with applications for direct loans, and the agency worked to reverse the trend seen a decade ago. Today, over 80 percent of OPIC's projects are with small and medium sized businesses. Consistent with this trend, I also expect to see a rise in the percentage of the value of loans and insurance projects that go to small businesses in the next few years.

#### *Standing Up for Labor Rights*

At the core of OPIC's mission is promoting responsible investment which guarantees that internationally-recognized labor rights are respected. But, it goes beyond that. OPIC is also charged with certifying that its projects do not outsource American jobs, and I am particularly cognizant of OPIC's impact on our trade deficit.

Given the current Administration's lax treatment of labor rights violations and its complete unwillingness to address our mounting trade deficit, I am eager to learn whether the steps taken by OPIC are adequate.

#### *Protecting the Environment*

OPIC's mandate certainly dovetails with the growing international movement toward "going green." In the last few years, the agency decreased its emphasis on oil and gas projects and put forward a new initiative on improving transparency of OPIC's environmental program is also underway. Despite these success stories, more needs to be done to meet today's challenges. The agency needs to focus more on renewable energy, combating global warming, and consensus building with indigenous communities. I look forward to hearing recommendations today on how Congress should direct OPIC to best address these environmental goals.

#### *Mechanisms to Increase Funding*

Given the challenges that I expect OPIC to meet in the coming years, I believe that it's important that we explore mechanisms that allow the agency to retain a greater share of its profits, not as a cash horde, but to allow OPIC to aide more projects, and to require a smaller fee from projects of special merit. More capital will fund greater investment and allow the agency to take on a broader array of issues, including growing U.S. exports, improving enforcement of labor standards, protecting the environment, and deterring investment in State Sponsors of Terrorism.

#### *Conclusion*

There are two camps—which are polar opposites on the issue of reauthorizing this agency. There are those who believe no changes should be made, and there are a handful of individuals who—for ideological reasons—believe that we should eliminate OPIC. I am in neither camp. I believe that we should take this opportunity to improve OPIC and ensure that it is staying true to its mandate.

**Mr. MANZULLO.** Thank you very much. I appreciate your holding this hearing today as the first step in the process to reauthorize OPIC.

Mr. Chairman, OPIC is one of the few organizations in this town that pays for itself. It is self-sustaining. It built its reserves up to over \$5 billion. Over the agency's 35 years, OPIC has supported

over \$70 billion in U.S. exports and supported more than 271,000 American jobs, at least those that you can count. You can't really count on all the jobs down the food chain on items that are manufactured.

In the '90s I ended up leading OPIC's reauthorization. There was a disaster going on, where there was an initial vote where OPIC was going to go out of business. And we began to hold hearings on—actually, on this subcommittee—it had a slightly different name—and brought in interesting people such as Monique Maddy.

I don't know if you recall her, Mr. Mosbacher. She was before your days. But Monique was born in Liberia and became a United States citizen and got OPIC help to set up wireless telephone booths in Tanzania and Ghana. We took that testimony; and, actually, it was Danny Davis that really saw what was going on there as an effort to help out emerging Africa, along with Sheila Jackson Lee. And we put together this most unusual coalition with Mr. Munoz, Congressman Menendez, who is now the Senator, and myself. It was the three M's that worked on it. By the time we showed the benefit of OPIC to so many congressional districts, people began to realize that this was a real asset to our manufacturing base and a huge asset, especially in nations that are struggling.

There is presently construction of a grain loading terminal at the newly built port on the Danube River in Moldova. And OPIC is also working with the World Business Capital, a private lender, provided a \$10 million loan to Kelly Greens Corporation, a small business.

So the impact of OPIC can only be stated by taking a look at the people whose lives have been changed as a result of having an opportunity to engage overseas.

As an aside, I know that OPIC has always been concerned about the environment, but we have got to be extremely careful what we do here. Caterpillar lost over \$300 million when EX-IM refused to give assistance with the Three Gorges Dam project in China. Well, that dam was built anyway. And to the people who were screaming about the Chinese alligator and the Siberian crane and some other animals that were under siege, our response was, well, aren't you better off with American technology that could help out in those situations? Three Gorges was built anyway, and we lost a huge amount of business because of over concern with the environment. We should be concerned about it, but if the project is going to be built anyway, why should we not be involved in it?

In fact, there was a remarkable meeting with the folks at EX-IM that was led by then-Senator Paul Simon and other members of the Illinois delegation just to try to straighten out the whole environmental issue; and, unfortunately, that never happened.

So that has been my history with OPIC. We ended up getting it reauthorized only because of the tremendous work by Mr. Munoz and by Mr. Menendez and, actually, by myself, because we saw that where people could have an opportunity to be involved in manufacturing, and especially exports, that where it doesn't cost the government anything except the cost of these committees and the oversight necessary, but these are the types of investments we should continue.

[The prepared statement of Mr. Manzullo follows:]

**PREPARED STATEMENT OF THE HONORABLE DONALD A. MANZULLO, A  
REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS**

Mr. Chairman, thank you for holding this hearing today as the first step in the process to reauthorize the Overseas Private Investment Corporation (OPIC). OPIC is one of the very few federal agencies in this town that pays for itself. OPIC is self-sustaining. In Fiscal Year 2008, OPIC is expected to generate \$159 million in revenue for the Treasury. OPIC has built up its reserves to over \$5 billion. Over the agency's 35 year history, OPIC has supported \$71 billion in U.S. exports and supported more than 271,000 American jobs through its political risk insurance and finance programs.

In the late 1990's, I ended up leading OPIC's reauthorization. The initial vote on OPIC's reauthorization in 1996 was a disaster—157 (yes) to 260 (no). OPIC was going to go out of business. We then began to hold hearings on OPIC in this subcommittee, when it was under a different name, and in the Small Business Tax, Finance, and Exports Subcommittee, which I chaired at the time. I brought in interesting people to testify on their experiences with OPIC such as Monique Maddy. Ms. Maddy was born in Liberia and became a naturalized U.S. citizen. As a small business owner, she received assistance from OPIC to set up wireless telephone booths powered by the sun in Tanzania and Ghana. Representative Danny Davis (D-IL) was a member of the Small Business Committee at the time and he really saw what was going on at OPIC. He concluded that OPIC was needed to help out emerging Africa. Along with Representative Sheila Jackson-Lee (D-TX), we put together an unusual coalition with former OPIC President and CEO, George Munoz (a Clinton Administration appointee), and then Representative Bob Menendez (D-NJ), who is now a Senator. We were the "3Ms." We worked on OPIC's reauthorization and by the time we showed the benefit of OPIC to so many Congressional districts that people began to realize that OPIC was a real asset to our economy and a huge asset especially to nations struggling to develop.

I am especially delighted that OPIC seriously took my challenge from that reauthorization fight in the late 1990's to dramatically expand their services to small businesses. Over the past 10 years, OPIC financing support to U.S. small and medium-sized enterprises (SMEs) grew 62 percent to \$320 million. For example, OPIC, working through World Business Capital, a private lender, recently provided a guaranty for a \$10 million loan to Kelley Grains Corporation, a small business. The loan will finance the construction of a new grain loading terminal at a newly-built port on the Danube River in Moldova. The terminal will include state-of-the-art U.S.-manufactured equipment. Loan proceeds will also finance the construction of a new oilseed crushing facility. OPIC also recently provided nearly \$2.1 million in political risk insurance to Big Sky Juice of Grand Junction, Colorado to support the establishment of a bottled water and beverage plant in Afghanistan, helping the country meet demand for clean drinking water. Thus, the impact of OPIC can only be stated by taking a look at the people whose lives have been changed by OPIC, helping them to get engaged in selling overseas.

As an aside, I know that OPIC has always been concerned about the environment but we must be careful not to overreach. Caterpillar lost over \$300 million in sales because the Export-Import Bank of the United States (Ex-Im) in 1996 refused to provide assistance to any exporter wishing to sell to willing Chinese buyers associated with the Three Gorges Dam project. The dam was built anyway. To the individuals who were concerned about certain threatened species, my response was "aren't you better off with American technology that could help out in those situations?" Nevertheless, the Three Georges Dam was built anyway. We lost a huge amount of business because of an over-concern with the environment. We should be concerned about the environment but if the project is going to be built anyway, America should be involved. In fact, I recall there was a remarkable meeting with Ex-Im led by then Senator Paul Simon (D-IL) and other members of the Illinois delegation just to try to straighten out the environmental issue. Unfortunately, that did not happen.

In conclusion, Congress ended up reauthorizing OPIC in 1999 by an overwhelming vote of 357 to 71 only because of the tremendous work of Mr. Munoz, Mr. Menendez, and myself because when people saw that they could have the opportunity to be involved in international trade and the program does not cost the government anything, these are the type of investments we should continue. Mr. Chairman, I look forward to reviewing the Administration's proposal and working with you and other Members of the subcommittee to get a bipartisan OPIC reauthorization bill signed into law by the President before the end of September. Thank you, Mr. Chairman.

Mr. SHERMAN. Thank you.

You also have an opening statement?

Mr. POE. A very short one. Thank you, Mr. Chairman.

Rob, it's good to see you today. I look forward to hearing your testimony. Thank you very much for being here.

With that, I yield back. Thank you, sir.

Mr. SHERMAN. Clearly, the mostly brilliant opening statement ever delivered in this room.

Ah, and we have our ranking member. Remember I just said that was the most brilliant opening statement? That comment preceded Mr. Royce's opening statement, which we are about to hear.

Mr. ROYCE. I thank you, Mr. Chairman.

I was just with Dr. Greenspan. We were discussing economics, and that is one of the questions here today, because the Overseas Private Investment Corporation is again up for reauthorization. I want to commend you, Mr. Chairman, for taking a close look at this.

I think for OPIC and all non-essential agencies the burden of proof should be on the agency, and that is why authorizations are time-limited. Reassessment is especially needed for an agency that undertakes private sector functions that could be done by the private sector. Too often, programs are reauthorized and continually funded through reflection around here. A key question concerns whether OPIC's activities duplicate what the private sector can do; and, if not, is it because OPIC is crowding out the private sector?

Political risk insurance is a case in point. There have been several new private entrants into the political risk market, offering increasingly sophisticated products; and this suggests that OPIC is redundant in this market. And there is also the question of whether or not the very existence of OPIC prevents the kinds of reforms internally or in-country that market forces and civil society would otherwise demand, a process that can be short-circuited by the ability of regimes to depend upon institutions like OPIC to bring investment whereas otherwise they would have to reform their own economies.

OPIC capitalizes investment funds. These funds were reformed several years back in reaction to cronyism. I won't go through the stories, but we remember the specifics of the cases at the time. The question today is whether the U.S. Government needs to be funding foreign investment in a world awash in capital, and are these funds structured in a way that gives taxpayers a fair deal? Are they sharing the same level of risk and reward as the investors?

OPIC claims to be creating jobs at home, yet most economists believe that subsidizing investment is merely shifting investment around, often to lesser productive locations. The Congressional Research Service has reported:

“From the point of view of the U.S. economy as a whole, there is little theoretical support or empirical evidence that supports claims that subsidizing exports or overseas investment offers a positive net gain in jobs to the U.S. economy.”

There are foreign policy implications with OPIC and its sister organization, the Export-Import Bank. This committee has been working to bring maximum economic pressure down to Iran, trying to stave off its developing nuclear weapons; and of late we have

seen some progress. Some foreign banks and other businesses have stepped away from Iran, fearing reputational risk and losing interest in Iran's sputtering economy.

But it is interesting to look who is not stepping away. A problem is European export credit agencies, which continue subsidizing trade with Iran. It doesn't make any sense in the market, but politically it continues to happen.

OPIC, of course, isn't involved in Iran, but it is worth thinking about how export promotion and foreign investment agencies distort markets when those very markets would otherwise aid our critical efforts against Iran and others. Market forces drive the banks out of Iran.

Ireland, by the way, got out of the export credit insurance business nearly 10 years ago, deciding to rely on the private sector. Ireland has had one of Europe's most reformist and best-performing economies over the last two decades. OPIC has improved since 10 years ago when its reauthorization was hotly contested. Some of the criticisms I made at the time have registered.

The question we need to still ask, though, today, in 2007, is whether an improved OPIC is a worthwhile OPIC; and we will hear about that today.

Again, Mr. Chairman, I thank you for holding this hearing.

Mr. SHERMAN. Thank you, Mr. Royce.

We have five witnesses today. We will start with our first panel. Robert Mosbacher is the President and CEO—oh, he is not—Do you have an opening statement, Mr. Wu?

Mr. WU. No, thank you.

Mr. SHERMAN. Then I will continue.

Mr. Mosbacher is President and CEO of OPIC. He was nominated by President Bush and sworn in as the ninth CEO of OPIC in October 2005. Prior to taking the helm, he served as chairman of the board of the Texas Department of Human Services. He also headed the Texas Governor's Welfare Reform Task Force and the Greater Houston Area Chapter of the American Red Cross.

Mr. Mosbacher.

**STATEMENT OF THE HONORABLE ROBERT MOSBACHER, JR.,  
PRESIDENT AND CHIEF EXECUTIVE OFFICER, OVERSEAS  
PRIVATE INVESTMENT CORPORATION**

Mr. MOSBACHER. Thank you, Mr. Chairman, Ranking Member Royce, members of the subcommittee. I am pleased to be here today and wish to submit my entire statement for the record and make some brief opening comments.

Mr. Chairman, we are particularly grateful for your prompt scheduling of this hearing. We look forward to working with the subcommittee to secure reauthorization of OPIC in advance of the September 30th expiration.

OPIC was created 35 years ago to facilitate and help mobilize U.S. private capital investment in developing and emerging market countries. It was to do so in a manner that was as developmentally beneficial as possible, in a manner that is supportive of American foreign policy and at no expense to the American taxpayer. In the past 4 years, OPIC has been meeting those objectives and more.

Before accepting this appointment, I spent 25 years in the private sector running a business. I understand firsthand the valuable role that OPIC plays in facilitating investment, because I bought political risk insurance over 10 years ago, and no one else would sell it to me but OPIC. I understand as well that OPIC is now focused on those U.S. businesses that need its help the most, small- and medium-sized enterprises; and, Congressman Manzullo, thank you for all your encouragement in that regard, as well as others.

But to give you an example of how strongly we are committed to small- and medium-sized business support, in fiscal year 2006, 87 percent of the deals we did were with small- and medium-sized businesses; in '05, 79 percent; in '04, 76 percent; and that contrasts with fiscal year 2007, in which it was only 24 percent. And virtually all of these deals are \$10 million or less. When someone suggests that OPIC is all about corporate welfare, that is simply not consistent with the facts in the last 4 years.

Second, we don't compete with the private sector. If you can finance your deal with a commercial bank, if you can insure your deal with a private insurance company, we are not going to insure it or we are not going to finance it. If you can only finance a portion of it, and that is as far as they will go, or insure a portion of it, then we may insure the rest for you, but we are not competing with the private sector. We are in addition to the private sector, we are in the gap, and we don't support projects that are likely to harm the U.S. economy or have a negative effect on U.S. employment. We take that charge very seriously.

Third, OPIC revenues continue to exceed expenses by between \$50 million and \$250 million a year. OMB calls that net negative budget authority. I call it a profit. That money goes back to the U.S. Treasury, which currently has \$5.3 billion in reserves accumulated by OPIC. So we are self-sustaining, as the law requires.

Now I would like to turn to our development mission, because this is really why I left the private sector to take this job here in Washington. In the private sector, I traveled the developing world extensively pursuing economic opportunities; and I was struck by how powerful private capital investment is as a tool of economic development and how transformative entrepreneurial capitalism can be when effectively deployed.

We are now much more disciplined about how we evaluate the developmental impact of our projects. Yes, we calculate the jobs created by the investment, both in the United States as well as the host country. We calculate the tax revenues generated, but we also calculate things like are they bringing about gender-neutral employment policies? Is there a commitment to making investment in the well-being of the communities in which they are operating? We score all that. We evaluate all that.

Part of wanting to be as positive or having as positive an impact on the host country with each investment as possible is seeing that our projects do not contribute to violations of internationally recognized worker rights. We take that charge very seriously as well and generally are not eligible for business in countries that are not taking steps to adopt and implement internationally recognized worker rights. In most cases, we view projects as an opportunity to raise

standards and to bring best practices to bear. Do we get it right every time? No. But we keep working on improving the process.

Another part of our having a positive developmental impact is making sure that our projects do not have a substantial negative impact on the environment of the host country. In all cases, OPIC projects have to meet the most stringent World Bank or host country environmental health and safety standards.

For projects in sectors designated as "environmentally sensitive," a full Environmental Impact Assessment must be submitted to OPIC for review. This assessment is posted on OPIC's Web site for a 60-day period of public comment prior to it going to our board.

We continue to work on posting more information regarding our projects. But something to keep in mind, which I think is often lost in the consideration of how much transparency in terms of information we can share, is that we deal with private sector companies. There is business confidentiality related to what they are doing. There is a high degree of concern that if we are too open about all the information related to projects we are giving away proprietary information, which, frankly, would run companies off. So we try to walk a fine line between trying to provide as much information about projects in a timely way and yet not divulging information that companies believe is proprietary.

With respect to the Category A projects, those are the ones that we estimate to have the most significant impact on the environment. We also now require public consultation with the communities in which those projects will be located.

We take, again, to heart the importance of sharing information in formats that are acceptable and understandable in the host country; and we have an Office of Accountability that is available and was created as of the last reauthorization that provides an avenue for communities or individuals in the host country to express their concerns or dissent if a project they feel is not appropriate.

With respect to environmentally clean technologies, I made note of the action last night of the full committee in support of encouraging investment in clean energy technologies. This is something we want to do, and we look forward to working with the committee on how to increase that investment. We support those investments and look forward to not only that but also identifying ways in which we can most effectively not just monitor but perhaps reduce the greenhouse gas emissions of projects that OPIC is involved in. We are actually quite far along in the process of examining a variety of initiatives in that regard, which we hope to share with this committee in the not-too-distant future.

We also take seriously the concerns about corruption in the markets in which we operate. So last fall we launched a new and higher visibility focus on anti-corruption and transparency. We have taken a number of steps in that regard, including not just simply expressing our desire that our sponsors or our customers or our investors understand the Federal Corrupt Practices Act but that they understand the sense and spirit of the law, as well as the letter, and that we are available to answer questions for them if they have questions about what does or does not constitute inappropriate conduct. We have set up a hotline to handle those calls; and we want to be part of helping our customers understand how to un-

dertake their business in the most honest, ethical and transparent way.

Also, as an initiative of our anti-corruption fight, we do periodically support projects in extractive industries. We have embraced the Extractive Industry Transparency Initiative, which was an international initiative whereby those companies that are mining or in the oil and gas business voluntarily disclose all revenues and taxes and so forth paid to host governments. And we then are also part of trying to encourage those host governments to be more public about how they commit and spend those resources, the idea being, hopefully, they are spending them on some form of sustainable development and not on padding pockets.

So are we making a difference? I think emphatically the answer is yes. While doing business in 156 countries and wanting to always be available to eligible American businesses that need our assistance, we have also helped drive investment into areas that are underserved or are high foreign policy priorities, for instance, in Lebanon after the fighting ended last summer.

Mr. SHERMAN. Excuse me, I am going to have to ask you to wrap it up. We do need to start asking you some questions.

Mr. MOSBACHER. Fine. I would be happy to, Mr. Chairman.

In Lebanon, we helped with a \$160 million lending facility with Citibank to support three Lebanese banks. In Afghanistan, I just signed a lease to help support the building of a Marriott Hotel in downtown Kabul. In Iraq, we are in for close to \$150 million. So we are involved in trying to help extend and support American foreign policy, and I think there are many other examples that I would like to mention.

But, finally, Mr. Chairman, we are asking for a reauthorization extension from 2007 to 2011. And last, but not least, I would be remiss if I didn't say what a privilege it is for me to head this agency and to work with such a gifted, professional, creative group of people at OPIC.

Thank you, sir.

[The prepared statement of Mr. Mosbacher follows:]

PREPARED STATEMENT OF THE HONORABLE ROBERT MOSBACHER, JR., PRESIDENT AND CHIEF EXECUTIVE OFFICER, OVERSEAS PRIVATE INVESTMENT CORPORATION

Thank you, Mr. Chairman, and Members of the Subcommittee. It is my privilege to appear before you today in support of the reauthorization of the Overseas Private Investment Corporation (OPIC).

When I accepted my current responsibilities as President and CEO nearly two years ago, I had a unique understanding of the agency, its mission and capabilities from the other side of the table. You see, as President of an energy business in Texas more than a decade ago, my company bought political risk insurance from OPIC. It was my first experience with the agency and my first recognition of the considerable potential of OPIC, which has only grown since.

The world has changed significantly over the last decade, but OPIC's mission, "*to mobilize and facilitate the participation of United States private capital and skills in the economic and social development of less developed countries and areas . . .*" remains as important as ever.

In every region of the world we see new examples of the transformative role that private investment and economic development can play in improving the quality of life for people, encouraging the growth of democratic institutions and the rule of law, and fostering political stability. OPIC is an important catalyst in this evolution.

## OPIC IN HISTORY

Created more than 35 years ago, OPIC's political risk insurance and financing help U.S. businesses of all sizes invest in 156 emerging markets and developing nations worldwide. By assisting U.S. private sector investment, OPIC fosters economic development in new and emerging markets, complements the private sector in managing risks associated with foreign direct investment, and supports U.S. foreign policy.

## PILLARS OF SUCCESS

By adhering to guidance from both the Congress and the Executive Branch, and staying true to our founding mission, OPIC has developed several pillars that have been at the heart of its success.

*Development Mission:*

Over its history, OPIC has supported \$177 billion worth of investments that have helped developing countries to generate more than 800,000 host-country jobs and \$13 billion in host-government revenues. This record of achievement has been augmented within OPIC by management guidance to seek out the most developmental projects and creation of new analytic tools to more effectively assess the development impact of our projects. As a development agency, OPIC does not compete with or crowd out the private sector. If a project can be financed or insured in the private sector, OPIC support is unnecessary. In fact, by working with the private sector, we are able to mobilize and lead private investment into those countries and areas that are most in need, supporting both development and foreign policy priorities.

It is noteworthy that OPIC's mission to promote development overseas does not come at the expense of our taxpayers here at home. Over 35 years, OPIC projects have supported more than 271,000 U.S. jobs and generated \$71 billion in U.S. exports.

Perhaps more importantly, by charging market-based fees for its products, OPIC operates on a self-sustaining basis, at no net cost to the American taxpayer. In fact, OPIC regularly earns funds above expenses, called "net negative budget authority." For FY 2008, we anticipate that OPIC will generate approximately \$159 million in net negative budget authority. Through prudent risk management, OPIC has accumulated reserves of over \$5 billion.

In sum, OPIC represents not only an effective tool for responsible economic development, but a good deal for the American taxpayer as well.

*Statutory Conditionalities:*

Effectively implementing OPIC's statutory conditionalities is pivotal to the success of the agency in promoting the most developmental investment.

OPIC conducts an environmental assessment of each project and declines support for projects that would have an unreasonable or major adverse impact on the host country environment, or on the health or safety of workers in the host country. In all cases, OPIC expects projects to meet the more stringent of World Bank or host-country environmental, health or safety standards. For projects in sectors designated as "environmentally sensitive" a full Environmental Impact Assessment (EIA) must be submitted for OPIC's review. This EIA is posted on OPIC's website for a 60-day public comment period that is required before the Board of Directors considers such a project.

OPIC does not support projects that contribute to violations of internationally recognized worker rights. OPIC agreements require the investor to commit to respect these rights, including the rights of association, collective bargaining, and acceptable working conditions with respect to wages, hours of work, occupational health and safety and minimum age standards.

Importantly, OPIC supports only those projects that are not likely to harm the U.S. economy or have a negative effect on U.S. employment. By statute OPIC will not support "runaway plants," which substitute existing U.S. facilities with foreign plants to serve the same markets.

In addition, in consultation with the Department of State, OPIC undertakes a human rights review on each project.

OPIC remains involved in the project for the life of the loan or insurance. Specifically, OPIC systematically monitors investor compliance with U.S. economic, environmental, worker rights and corrupt practices representations through questionnaires, investor reporting and site visits on a sample basis.

To ensure that these conditionalities are properly implemented and coordinated for the agency as a whole, OPIC formed an Office of Investment Policy (OIP), with

representation at the vice president level, which reviews and screens all OPIC projects. OIP also reviews and scores OPIC projects for developmental impact.

*Dedicated Small Business Program:*

In recent years OPIC has re-energized and focused its efforts in the service of U.S. Small and Medium Enterprises (SMEs).

An effective small business program provides the specialized services required by SMEs which normally begin the overseas investment process without the sophisticated systems and deep financial and personnel resources available to larger companies. To meet that need, OPIC established a Small and Medium Enterprise Finance Department (SMEF) that is responsible for OPIC's direct lending program. By simplifying procedures and implementing more aggressive cycle time requirements, OPIC has changed its relationship with U.S. small businesses for the better.

The proof of the program's success are in the results. More than 80% of all OPIC projects approved in FY 2006 were U.S. SME projects. This contrasts with only 18% OPIC supported SME projects ten years ago.

OPIC is now preparing to take its small business program to the next level. Next month OPIC will formally launch the Enterprise Development Network (EDN), a strategic alliance among U.S. financial institutions and others certified by OPIC, that will facilitate efficient delivery of OPIC funding to developmental and credit-worthy U.S. SME projects. EDN will leverage the extensive grassroots networks of participating financial institutions and extend the reach of OPIC's growing small business programs.

*Focus on Under-Served Regions:*

By focusing on under-served regions, OPIC can mitigate private sector risk, and mobilize and lead capital for developmental purposes where it is needed most. This is particularly evident in areas of high foreign policy interest in the greater Middle East, sub-Saharan Africa and Central America. Current projects that best illustrate this are in:

*Afghanistan*—OPIC financing will support the construction of a 209 room hotel to be managed by Marriot International in Kabul, Afghanistan. Beyond providing modern accommodations for visitors, including potential investors, the project will generate several million dollars in foreign exchange annually, and create 270-permanent jobs for local Afghans.

*Lebanon*—OPIC is supporting the international initiative to rebuild the Lebanese economy following last summer's hostilities. OPIC is partnering with Citigroup in a loan facility that will mobilize up to \$160 million in private capital for home reconstruction, mortgage financing and small and medium sized enterprises.

*Zambia*—OPIC continues to target the most developmental investments in sub-Saharan Africa. In Zambia, a \$46 million OPIC loan is facilitating mortgage financing for 5,000 new homes in Lusaka.

In Central America, the modest size of national economies creates an opportunity for private capital, supported by OPIC, to have a significant developmental impact. In 2006 I made two trips to the region, announcing more than \$300 million in investment microfinance, housing and power, among other sectors.

By focusing on these four pillars, OPIC has organized itself for success.

#### 2003 REAUTHORIZATION

In OPIC's last reauthorization, the Congress set out two specific objectives for the agency. First the Congress directed that OPIC create an "Accountability Mechanism" to provide problem-solving and compliance review services in a manner that is fair, objective and transparent, to enhance OPIC's mission effectiveness. Second, the Congress directed that OPIC continue its work on a *transparency initiative* to heighten transparency and information disclosure concerning OPIC's projects consistent with existing statutes and laws. I am pleased to report to the Subcommittee that OPIC has taken concrete actions on both of these objectives.

*Office of Accountability:*

In February 2005, with the agreement of OPIC's Board of Directors, OPIC created the independent Office of Accountability (OA) within OPIC. The agency subsequently hired a Director to staff the office, reporting directly to the President & CEO. The Director has been active in promoting the program and responsive to issues raised with the Office.

*Transparency Initiative:*

When I assumed office in 2005, I took a personal interest in OPIC's transparency activities. Having been an international businessman in the private sector, I saw first hand the deleterious effects of corruption and a lack of transparency on both development and the investment environment. Moreover, I am personally convinced that profitable international investment is completely compatible with evolving best practices for corporate social responsibility, specifically with regard to anti-corruption measures and transparency.

Fighting corruption and ensuring transparency are deeply tied to OPIC's developmental mission. The benefits of our foreign economic policy objectives can only be achieved when OPIC supported projects are openly channeled to promote host countries' economic growth and not corruptly diverted for personal enrichment. With this in mind, I was pleased to announce the OPIC "Anti-Corruption and Transparency Initiative" last September, which expanded and enhanced measures that had previously been discussed with the agency's stakeholders. The Initiative had five key components:

*EITI*—OPIC formally endorsed the principles of the Extractive Industries Transparency Initiative (EITI) which supports improved governance in resource rich, developing countries through the full publication and verification of company payments and government revenues for oil, gas and mining ventures. The agency will encourage its sponsors in these sectors to join the EITI as well. The goal is to ensure that revenues from extractive industries in developing countries contribute to sustainable development and poverty reduction.

*Anti-Corruption*—OPIC defines corruption broadly and through its due-diligence and other processes takes many steps to insure that its projects are corruption free. OPIC also believes it is important to help educate our investors as to how they can eliminate corruption in its projects. In that regard, OPIC created and posted on its website an Anti-Corruption Handbook that provides OPIC sponsors and other interested parties with a comprehensive approach to fight corruption. OPIC is also working with other agencies and organizations to sponsor an anti-corruption compliance program workshop for small business. In addition, OPIC established a dedicated corruption "hotline," allowing sponsors to receive compliance guidance and to report allegations of fraud in connection to OPIC sponsored projects.

*Enhanced Character Risk Due Diligence*—Building on its existing best practices, OPIC enhanced its internal due diligence procedures with regard to character risk in its projects.

*Improved Coordination with Locally Affected Communities*—For projects with "significant social impacts," OPIC now requires project sponsors to formally consult with locally affected communities.

*Improved Information Disclosure/Collection*—Through its redesigned website OPIC agreed to post additional non-business confidential project information to improve its project transparency, and to provide greater stakeholder input on information collection.

I believe that through these measures, OPIC has been responsive to the guidance of the Congress and the evolving best practices in international investment, transparency and accountability. We will continue to evolve with those standards.

LOOKING FORWARD

I personally believe that we live in a distinctive period of history. This is a time of dynamic economic and political change, which creates a unique opportunity. Over the past 25 years we have seen the emergence of new and hopeful paradigms for development beyond that provided by traditional Official Development Assistance (ODA). We have seen the rise of Non-Government Organization (NGOs) and non-profits that bring unique technical skill sets. We have also seen the tremendous resources of corporations and corporate philanthropy that dwarf the means at the disposal of the U.S. government to promote development.

I believe that one of the opportunities we have today is to mobilize the ingenuity, creativity, experience and resources at the disposal of the U.S. Government, the NGO community and the American private sector, and use that assembled talent to decisively promote responsible economic and social development in the developing world.

Entrepreneurship—risk taking to promote a better life—is part of our national character. Fully realized in our international development policy, it is also one of our most potent tools in the fight against global poverty. If we can work together,

this type of economic empowerment could also make contributions to our security similar to those of our generals and diplomats.

*Enhanced Inter-Agency Coordination:*

I believe that an important part of how we think about international development and investment begins with a clear focus on our programs in the Executive Branch. The U.S. government brings significant resources to bear in developing countries; from U.S. Agency for International Development (USAID) grants and technical assistance, Millennium Challenge Corporation (MCC) Compacts, U.S. Trade and Development Agency (TDA) feasibility studies, to Export-Import Bank (EX-IM) export financing to name a few. We work well together now, but we can always do more, both for the sake of our foreign economic development goals, as well as for the efficiency that we owe American taxpayers.

To that end, OPIC has been diligent in promoting inter-agency cooperation and collaboration with our colleagues in the Executive Branch. We have met with the senior leadership of MCC, EX-IM and other agencies and departments. Our close cooperation with USAID has seen meaningful results. For instance, in the Zambia project referenced above, USAID technical assistance and loan guaranties extended through the Development Credit Authority (DCA) have been essential to the success of the Lusaka housing project. OPIC and USAID have also had close cooperation in Afghanistan, and Lebanon.

I am committed to working with my inter-agency partners to continue this process.

*Catalytic Tools for Development—Access to Capital:*

It is my firm belief that one of the most effective and catalytic tools to promote development is the ability to provide credit on affordable terms. OPIC has endeavored to do this in three ways.

First, by extension of microfinance facilities, which offers an effective means to reach those at the bottom of the economic strata, OPIC created opportunities for commercial banks to play a role in this sector so critical to the development of countries most in need. For example by partnering with Citigroup, OPIC has approved a \$70 million loan guaranty that will provide financing for up to 50 emerging Micro-Finance Institutions (MFIs) in more than 30 countries. OPIC has also played a leadership role in helping microfinance organizations to access international capital markets.

Second, through partnerships with U.S. and local banks, OPIC is positioned to extend credit to the market segment that is just above micro. In so doing, we not only provide dynamic capital infusion to promote job creation and economic growth, but we are also transferring essential banking and finance skills to local markets. For instance, through a lending facility supported by OPIC, Wachovia Bank is providing a \$25 million loan to Banco Atlantida in Honduras; proceeds of the loan will be used by the Honduran bank to expand its lending to small- and medium-sized enterprises.

And third, OPIC can provide access to capital through its Investment Funds program, which helps entrepreneurs raise critically needed equity capital, to promote growth and jobs. OPIC currently manages a portfolio of 31 funds, chosen through a competitive selection process on a geographic or sector specific basis. OPIC provides one-third to one-half of the fund capital with guaranteed debt, with the fund manager raising the rest. Over 90% of the companies supported through OPIC investment funds in host countries are small businesses.

Through these three vehicles, OPIC can help build developing economies through investment in their best commodity, human capital.

*Catalytic Tools for Development—Housing:*

There are few tools of development as catalytic and developmentally beneficial as housing. As the United States discovered fifty years ago, housing has tremendous transformative power. It provides shelter, but it is also a store for wealth, a bulwark of the financial system, a job creator for the overall economy, an asset upon which to build businesses, a defining element of every community, and most importantly, that thing which we call home, which is bigger than the bricks, mortar, and shingles that make-up the house.

OPIC supported housing projects address discrete parts of the industry: home construction, housing related infrastructure like sewer, water, and electricity, property titling, and long-term mortgage finance that will allow more and more citizens in developing countries to purchase their homes.

In Tanzania, for example, a U.S. small business is using OPIC political risk insurance as part of a program to assist in the construction of 5,000 homes in major cities throughout Tanzania. Beyond the provision of shelter, the housing will have access

to required infrastructure including roads and utilities. In Ghana, OPIC has financed a Ghana-American joint venture that is helping middle income families obtain mortgages for the first time.

To date OPIC has approved nearly \$1 billion in housing projects, which, when fully implemented will result in over 450,000 units of housing. Additionally, the outlook for more is bright with \$1.5 billion of additional housing projects currently in the project pipeline.

*Jump Starting Investment in Strategic Regions:*

Operating under the foreign policy guidance of the Department of State, OPIC has recognized that there are countries that have taken bold steps toward democracy or economic reforms. Some of these countries are emerging from years of war or social upheaval and deserve our focus to "jump-start" economic growth.

There is a tendency in these situations to believe that the local private sector can only be effective if all the regulatory and legal requirements have been implemented. This is a process that can take years in a post-conflict situation. However, it has been my experience that instead of looking at regulatory and legal regimes as a prerequisite to private sector investment, they can occur simultaneously. In these cases, the private sector investment not only serves to jump-start tangible economic growth and jobs, but also reinforces reform.

It is with this scenario in mind that OPIC created the Rapid Economic Development Initiative (REDI). REDI seeks to kick-start investment in countries such as Afghanistan, Lebanon, Liberia and other high priority countries where visible economic progress is critical to maintaining political stability.

I have already mentioned OPIC's work in Lebanon. Another excellent example is our work in Liberia and the U.S. Government's commitment to President Ellen Johnson-Sirleaf. Working with Robert L. Johnson, founder of Black Entertainment Television (BET), OPIC and other parties have approved the formation of a \$30 million Liberia Enterprise Development Fund. The facility will provide capital investment and support to promote private enterprise and job creation critical to rebuilding social and economic foundations in Liberia. Through innovative structures and a commitment to results, OPIC can help drive results such as this.

We also consider outreach efforts. In February, OPIC cosponsored a very successful forum to promote private sector investment in Liberia, attended by President Johnson-Sirleaf, which attracted over 300 participants.

2007 REAUTHORIZATION PROPOSAL

Mr. Chairman, with this broad and diverse range of ongoing activity, OPIC's reauthorization proposal is straight forward. OPIC is principally seeking a four year extension of our charter.

In addition, as a result of our consultations with the Congress in the lead up to reauthorization, we adopted the suggestion that the current authority for OPIC to operate in Iraq contained in other bills since 2003, be included in the Foreign Assistance Act.

Other changes are strictly technical and conforming in nature and include:

- Deleting language for a pilot equity program that was given to OPIC in 1988 and expired over a decade ago.
- Deleting transfer authorities that were necessary to facilitate the creation of OPIC from USAID in 1971. The authorities are no longer applicable.
- A conforming change to OPIC's statute that was made in other sections of OPIC's authorizing statute, but missed during a previous reauthorization.

CONCLUSION

Mr. Chairman and members of the Subcommittee, each passing year underscores the importance of OPIC to the fulfillment of our nation's commitment to support U.S. private capital investment as a means to help create economic hope and opportunity around the world. And it is appropriate here to say that this would not be possible without the dedication and professionalism of OPIC staff, who work each day to make the agency's mission a reality. I would like to recognize their outstanding contribution to our country.

I look forward to working with each of you in making OPIC the most effective vehicle for promoting U.S. interest through private sector led development, promoting economic growth and hope in developing countries, and protecting the taxpayer at home.

Thank you. I will be pleased to respond to your questions.

Mr. SHERMAN. Thank you for your opening statement.

Traditionally, the first questioner would be myself. I want to yield that distinct responsibility to Mr. Wu, if he has another 5 minutes. But if he has to go on, then—apparently, I will be asking the first questions.

Congress prohibited the EX-IM Bank from investing in this proposed anti-Armenia railroad. Can you commit to us here that OPIC will not participate in a railroad whose necessity is caused only by a desire to skirt existing railroads that travel through Armenia?

Mr. MOSBACHER. Yes, sir. We are familiar with the project and have no plans to do anything in support of that project.

Mr. SHERMAN. Is that a commitment or just a statement of current—

Mr. MOSBACHER. No, that's a commitment.

Mr. SHERMAN. Thank you.

It is important that OPIC view itself as part of the foreign policy of the United States, and you help developing countries, and you wouldn't help enemies of the United States, but some friends are better than others. Does State Department brief you on which developing countries it is in our highest foreign policy interests to provide development projects to and which countries, while not enemies of the United States, perhaps even friends, are not high on our list for development projects from a foreign policy objective standpoint?

Mr. MOSBACHER. Yes, sir. We operate statutorily under the authority of the Secretary of State, and we follow the State Department's guidance on foreign policy. We are in constant, constant communication with the State Department. In fact, our board is made up of 15 people, eight of whom are private sector appointed by the President, seven of whom are members of the executive branch. The State Department has one person on the board and USAID has another, but we work very closely with the State Department on determining what countries we should be doing business in, what countries we should not, where we should go slow, where we should be cautious.

Mr. SHERMAN. Do you get enough information so that if you get two identical projects, one from X Country and one from Y Country and X has been a better friend to the United States, that that gets down to the people making decisions on what in some cases are relatively small projects? You can't personally be involved in each one of these, nor can your board members. Can the average GS-13, if you have the GS system over there, know which of two projects should be favored based on foreign policy considerations?

Mr. MOSBACHER. Yes, sir. All countries in which we are open to do business are categorized in terms of whether they are open, as in full open, or open subject to review, or any other kind of constraint. And that is actually posted on our Web site, and that is well known by people on our staff. They know if they have a project in a suspect country or questionable country that normally we either are not going to do it or they are going to bring it to me to give guidance on it, and I will turn to the State Department to get that.

Mr. SHERMAN. It may not be in our foreign policy interest. We are not second graders making lists of who is my third best friend and who is my fourth best friend and who is my 18th best friend.

In addition to what's posted on your Web site, are your people aware of objectives which can't be formally published?

Mr. MOSBACHER. Yes, sir.

Mr. SHERMAN. Now, you posted—over your 35-year history, I have been told that you made a \$25 billion profit? Is that the right number?

Mr. MOSBACHER. It is \$5 billion.

Mr. SHERMAN. \$5 billion?

Mr. MOSBACHER. Yes, sir.

Mr. SHERMAN. Excuse me. Does that take into account all your operating costs over those years, or are those somehow separately appropriated?

Mr. MOSBACHER. No, actually, our operating costs are appropriated from the reserves.

Mr. SHERMAN. So that \$5 billion is a net figure?

Mr. MOSBACHER. Yes, sir.

Mr. SHERMAN. On the other hand, freezing the situation as it is now, we have got \$5 billion of your money in the U.S. Treasury, or spent by the U.S. Treasury, and we have certain risks that the Federal Government has assumed. So if in your words, God forbid, we didn't reauthorize you, what is the net present value actuarial computation of the total risks that still exist?

You know, I know you guaranteed some project 30 years ago and it is completed and there is no risk. Of the things that are still a risk today, what would an insurance company with perfect actuaries charge for lifting all those risks off the U.S. taxpayer?

Mr. MOSBACHER. Our maximum worldwide project exposure today is \$11.3 billion.

Mr. SHERMAN. But that is if everything went together in a hand basket.

Mr. MOSBACHER. That is right. There is no NPV that has been calculated on it that I have seen, but somebody could do that. But I think—

Mr. SHERMAN. You calculate a cost or a risk for each one of your deals. For those that are still alive, where the risk is still real, what does it add up to? The net present value? You may want to get back to me on this.

Mr. MOSBACHER. Maybe I could get back to you.

But, as you know, under the Federal Credit Reform Act, we reserve against all credits made; and that is a separate sort of category of budget, as opposed to our administrative budget. So typically we get—and we have in the last few years gotten—\$20 million of credit subsidy, and that is something that again goes into our calculation on how much we can do in the way of business. We can actually finance a lot more projects because of the \$5 billion. However, we have a limitation on the credit subsidy that is available to support that.

Mr. SHERMAN. I am just trying to understand as one of the many proprietors and interest holders in the Federal Government what profit you have made for us, and the answer is \$5 billion minus some small percentage of \$11.3 billion.

Mr. MOSBACHER. Right.

Mr. SHERMAN. That small percentage is what I am aiming at here.

Mr. MOSBACHER. Well, the figure I think we could provide in terms of worldwide exposure, actual exposure at the moment would be \$7,480,000,000.

Mr. SHERMAN. Again, that is if everything went down and every nation in the world expropriated every asset that you have guaranteed.

What I would like you to furnish for the record is that \$11 billion or \$7 billion, whichever is the relevant figure, the right amount of reserves to have on that, or the net present value of the risk assumed. I am sure it is just a few percentage points of the \$7 billion. But I don't know whether we are talking about 20 percent or 2 percent, and I know you will get back to us on that.

Mr. MOSBACHER. Yes, sir.

Mr. SHERMAN. With that, let us hear from our distinguished ranking member.

Mr. ROYCE. Thank you again, Mr. Chairman.

I would like to discuss the investment funds, Mr. Mosbacher. OPIC beginning in the late 1990s reformed the terms of participation in its investment funds and in its management selection process, is that correct?

Mr. MOSBACHER. Yes, sir.

Mr. ROYCE. And were these reforms a reaction to the abuses of the 1990s? When I say abuses, I am referring to two issues. One, abuse of the taxpayers. In the 1990s, it was all upside for fund investors. I remember a quote from OPIC President Ruth Harkin, who said, "If you were an investor in an OPIC supporter fund the worst you could do is get your money back at the end of 10 years." This isn't free enterprise. Would you say that has changed?

Mr. MOSBACHER. It has changed quite dramatically.

Mr. ROYCE. The other abuse that was a real concern was the selection process for fund investors, fund managers; and is it true that there was an ad hoc selection process to invest or manage these funds? And those funds, by the way, exploded in number in the 1990s. But that there was an ad hoc selection process?

Mr. MOSBACHER. Well, I wouldn't know how to characterize how they used to make the selection, but I would say today it's a much more transparent, competitive process.

Mr. ROYCE. At the time, we had both Barron's and Mother Jones, so sort of a spectrum of investigative reporters, I remember, looking at this problem, and those two publications in particular documented some pretty sweet deals, what they found to be cronyism, at least with these funds. And I was going to ask you if you felt there were abuses of the 1990s.

Mr. MOSBACHER. My understanding is that there were.

Mr. ROYCE. So you are confident that the funds today are transparent and fair to taxpayers?

Mr. MOSBACHER. Yes, sir, I am; and let me just give you a minute on why that is the case.

We took to heart the experience of the '90s and the potential for, in effect, fund managers being selected on something less than a competitive, transparent process. We now employ third-party gatekeepers. Once we identify an area or a sector in which we would like to encourage investment, we engage a gatekeeper or two. They help manage the call to fund managers. Fund managers then have

to compete to be selected. Then the gatekeeper suggests to us a short list, depending upon how many fund managers indicated an interest, and then we make the final decision. But that is a major change, and it insulates us from the sort of political pressure that I think was evident before.

One other change that is fundamentally better for American taxpayers is, whereas OPIC used to put in upwards of 60, 70 percent perhaps in terms of the OPIC portion of the fund, which is why I think you might have been able to characterize the maximum risk to an investor as get your money back—

Mr. ROYCE. Right.

Mr. MOSBACHER [continuing]. We put in now between a third and a half, maximum half—

Mr. ROYCE. Yes.

Mr. MOSBACHER [continuing]. And we are in the form of senior secured debt, which means OPIC has to be paid off first.

Mr. ROYCE. Well, I am just pointing out I was fighting this in the 1090s, trying to make these points at the time.

Mr. MOSBACHER. You were successful.

Mr. ROYCE. To me, it is partly the nature of something that is driven not by markets, and instead we have got to figure out a way to keep political pull from impacting this, and it is damn hard to do.

Anyway, let me go to another point that concerns me. OPIC provided a \$4 million loan to a U.S. company—this is Microfinance International—to provide remittance services in the United States in collaboration with Latin America microfinance institutions. Do you have any concerns about facilitating remittances? I don't know that that benefits the U.S. economy.

And, lastly, the OPIC document, Cooperation with Private Insurers, reports several participants commented on the number of new entries by insurers in the market and how competitive the political risk insurance market has become. The document goes on to note that this competition has reduced the pricing of political risk insurance. This suggests to me that OPIC's traditional rationale for providing political risk insurance may be eroding, in that the private sector appears to be increasingly willing to fill this field.

And I would also just ask you, do you—from what I have read, it suggests a rather worrisome degree of clubbiness. Do these new entrants in the political risk field have a business relationship with OPIC? I was going to ask specifically, is OPIC reinsuring them? Are many of these businesses being led by OPIC alumni?

These are things that I would just be interested in knowing, Mr. Mosbacher.

Mr. MOSBACHER. Well, on the second question of more entrants into the private insurance market, I view this as healthy. My view, if the private sector market is willing to do this, there is no reason for us to do it. And if you look at our portfolio in terms of insurance, it has been sort of steadily declining over the last several years to reflect the fact that the private market is stepping in. That also reflects increasing willingness of some companies to take this risk on their balance sheet.

But we continue to focus on where are we in addition to what the private sector market is doing. And, interestingly enough, we

have a Private Market Advisory Group, which is made up of a cross-section of large as well as smaller insurers; and it is their opportunity to tell us if they think we are competing with them or undermining them.

I sat through my second one of those about 3 weeks ago, and I was very encouraged that they feel like we are being in addition to what they are doing. We are going into spaces that they don't want to go into. If they want to go into it, then we are happy to back out. So that is sort of the space we are trying to operate in.

I might also add that whether or not we are reinsuring somewhat is a function of what they bring to us; and we put it through the same examination of additionality, in addition to, and evaluating the developmental impact and all the other requirements that we have.

So that's sort of where we are on insurance.

With respect to Microfinance International and remittances, you know, there is an ongoing discussion about whether or not there are ways to productively deploy remittances that go back into countries for some use other than going into a pillowcase. I think what they are trying to do is find ways to move that into either supporting business development and growth or into mortgages. You know, we are very anxious to see what we can do to help support job creation in places like Central America so more Central Americans decide to stay there and work and live and not seek employment in the United States.

Mr. ROYCE. I don't know that remittances necessarily is good for the United States in terms of us using an institution underwritten by the U.S. taxpayers in order to underwrite political risk in order to, you know, accelerate remittances outside of the United States.

Anyway, I yield back. Thank you. Thank you, Mr. Mosbacher.

Mr. SHERMAN. Thank you.

Now let me recognize the vice chairman of the committee, Mr. Scott.

Mr. SCOTT. Thank you very much, Mr. Chairman; and welcome, Mr. Mosbacher. It is good to have you.

Let me ask a series of questions, if I may, about OPIC; and, first of all, could you explain the funding for OPIC? How do you get your money? How do you sustain your money? And what level of it?

Mr. MOSBACHER. Well, OPIC, by law, must be self-sustaining; and since I think 1973, a couple of years after we were created, our revenues have exceeded our expenses. Since then, we have been steadily amassing reserves in the Treasury; and although we seek appropriations each year for our budget through the traditional process when those appropriations are agreed to by the Congress, then those appropriations come out of those reserves at Treasury.

Now there is one other sort of category of funding. That is the one that I was speaking with the chairman about. That is, under the Credit Reform Act, we reserve against the loans we make like a bank, and we call that credit subsidy. We have a finite amount of credit subsidy, which is also included with our appropriation for administrative funding, but we made between 150 and \$250 million a year, and that is what has resulted in the \$5 billion plus at the Treasury Department.

Mr. SCOTT. So is it true that in fiscal year 2006 you had a net income of better than \$300 million?

Mr. MOSBACHER. Yes, sir. I think that is correct.

Mr. SCOTT. Are you investing in Iraq? OPIC have any investments in Iraq?

Mr. MOSBACHER. Yes. OPIC has about \$150 million of investment in Iraq. The largest piece of that is something we called the Iraq Middle Market Facility, which is a lending—small business lending facility that has made about \$46 million of loans, has about another \$58 million in the pipeline; and we have been involved in a variety of other stand-alone projects like bottling plants and things of that sort. But, yes, sir, we do support investment in Iraq.

Mr. SCOTT. And in these projects in Iraq, how many jobs were created?

Mr. MOSBACHER. Well, we do a calculation on every project in terms of the number of jobs created; and I would have to get you that figure in terms of how many have been created by the variety of small business loans we have made.

But I am a big believer that, you know, small business creates most of the jobs not just in our country but elsewhere; and that is why we feel why this is a very catalytic sort of area to be helpful.

Mr. SCOTT. So then it is safe to say that in—say there were investments in 2004 of about \$200 million, 2005 of about \$100 million, 2006 less than \$7 million. It has dramatically, dramatically dropped. So as we assess where we are in our policies involving Iraq, what is the future of your investments in Iraq and what would you attribute it to, the dramatic decrease year by year from \$200 million to \$7 million? And then what is the future for you there?

Mr. MOSBACHER. Yes. That is not a function of any change of heart. It is really a function of when we actually book business or have the commitments made or begin disbursements.

I mean, the Iraq Middle Market Facility that I described to you is one that we have added to; and, as a consequence, it doesn't appear as an additional investment. But, in fact, we are in the final stages right now of adding another \$8 million to it. But it was booked in the year in which we originally committed to it.

So we continue to support the viable investments that we have. I will say some of those are more weighted toward Irbil in the northern part of the country than was previously the case, but there are still deals being done in and around Baghdad.

Mr. SCOTT. Okay. Let me ask you a question sort of a little bit closer to home. Would you elaborate on what you do for small businesses? Including, as I understand it, you held workshops in my hometown of Atlanta, Georgia?

Mr. MOSBACHER. Right.

Mr. SCOTT. But particularly, you know, what assurance do we have, certainly for my colleagues in Congress, that you are not just giving welfare to big companies?

Mr. MOSBACHER. Right. Well, we now are up to 87 percent of the deals we did in fiscal year 2006 that were with small- and medium-sized businesses, and that is maybe a high watermark in terms of it may be a little higher than we will end up, but we are right around 80 percent of our deals are small businesses.

We have taken to heart very strongly the importance of helping those businesses that need our help the most. Those are small- and medium-sized businesses, and we have set up a small- and medium-sized enterprise finance division. Within that we have a small business center. We worked with the chairman on trying to make the application process as expeditious as possible, because time is money for small businesses; and I think, frankly, we perhaps get more accolades from small business today for what OPIC is doing than at any time in the past.

I might also add that we are not as well known as I would like for us to be. I get asked a lot in different parts of the country what we are going to do about the price of oil, and I have to explain we are not OPEC. So we need help in raising our visibility; and, to that end, we have been doing a series of workshops particularly aimed at women and minority-owned businesses. We have done one in Atlanta, we have done one in Chicago, we have done one in Los Angeles, we just did one in Miami, we are going to do one in Newark and San Francisco and Houston over the next year. So we find those to be very productive. It is a very sort of practical, hands-on help in how we can facilitate small women-owned and minority-owned businesses making investments in international markets.

Mr. SCOTT. Well, I certainly want to take an opportunity, Mr. Chairman, though my time is up, but I want to commend you for that. That is one of the reasons why I wanted to mention that program, because there is no greater need, particularly in closing the wealth and income gap, particularly in the area of minority-owned businesses and women-owned businesses, and the help that you are giving to those businesses is certainly commended. You certainly have my full support and I think a growing number of Members of Congress as well. So thank you for that effort.

Mr. MOSBACHER. Thank you, Congressman Scott.

Mr. SHERMAN. I would just comment that you have one of the most unfortunate acronyms in Washington, and we should discuss—I don't want an answer here—some slight change to your name that would give you some different initials.

With that, let me yield to the distinguished gentleman from Illinois.

Mr. MANZULLO. Thank you very much.

One of the problems when you have two panels is there is not an opportunity to answer what the second panelist may have the opportunity to share. But I am looking at the testimony of Jeff Vogt, who is with the AFL-CIO, and I don't know if you have had a chance to look at it, Mr. Mosbacher, but it talks about OPIC being involved in financing manufacturing companies overseas that end up shipping cheap product back to the United States and hurting manufacturing jobs here. Could you explain the law and the policy on that?

Mr. MOSBACHER. Yes. Our mandate is to do no harm to the U.S. economy and do no harm to U.S. employment. So one of the calculations we make on every project is what are the U.S. effects? And that means not only positive effects in terms of jobs created, exports supported or whatever but also is there a danger that what we are supporting could end up costing U.S. jobs? We take that very seriously. And if the answer is that we are going to do damage

to U.S. employment, we are not going to do the deal; and that is a hard and fast rule in our agency.

Mr. MANZULLO. Do you know or have you ever been charged in particular with any loss? This is a statement coming from the labor unions that have lost a lot of manufacturing jobs.

As you know, I have one of the most highly concentrated manufacturing districts in the country, with over 2,500 factories. And we have had tremendous job loss. I don't know of any of those job losses that are attributed to the fact that OPIC has been involved in financing a company overseas.

Mr. MOSBACHER. Well, we—I mean, just statutorily we wouldn't support anything that looked like a runaway plant. But even the more subtle question of is something we are supporting overseas coming in and undercutting U.S. jobs, if we determine that is the case, we are not going to do that project.

Mr. MANZULLO. Okay. The other thing is the foreign direct investment into the United States has saved thousands of manufacturing jobs in my district. The Israelis bought out Ingersoll Cutting Tools, built a \$350 million campus in Rockford. The company was just sold to Warren Buffett, so it is a very viable company. The Italians, Comuzzi Brothers, bought out Ingersoll Cutting Tool Division. The Japanese came in and bought Union Specialties, which is the last United States sewing machine company left. That is it. There was one. It was on its way out.

Japanese foreign investment came in. The Japanese know how to run sewing machine companies, and they have saved a lot of businesses. Even the Chinese bought a non-sensitive manufacturing company. It is a company owned by the Chinese Government, is manufacturing in my district, and they are exporting machine tools back to China. It is an extraordinary, circuitous route on what we are doing here.

But I can certainly commiserate with Mr. Vogt, what he is going to say. And in many cases, U.S. jobs have been lost by foreign direct investment overseas, but in none of those do I know that OPIC has been a culprit. I just wanted to draw that line, because I don't want to criticize Mr. Vogt that heavily, because I know the passion that he has, and many of the workers that he represents are workers that have lost their jobs in my district.

If I could ask another question, that would be on page 3 of your testimony, you talked about an exciting new program called the Enterprise Development Network. And could you embellish on that?

Mr. MOSBACHER. Yes. This goes sort of back to the point I was making about we have a finite number of people, and one of the things we don't have enough people to do is go out and effectively market what all OPIC can do and then allow American businesses to take maximum advantage of us.

By the same token, there is much more demand out there for small business credit and support from OPIC than we can handle internally. So with the support of individuals like yourself and others, we have found a way to create sort of an external identification and processing mechanism which will allow us to abide by the statutory conditions that OPIC has to operate under but allow others

to identify opportunities for support and then actually to be part of making those opportunities real.

So through the Enterprise Development Network we have actually loan originators, which are different companies that are picked to play that role, and then we have designated lenders that are financial institutions that will work with OPIC and again abide by our rules. This is a \$100 million-plus program, and I think will dramatically increase access to OPIC services that we couldn't do simply on our own.

Mr. MANZULLO. Do you have any idea how many lenders would be involved?

Mr. MOSBACHER. I think between 5 and 10, but I am not sure. Anybody know?

Mr. ALDONAS. We have got about five more in the pipeline that we are starting to develop.

Mr. MOSBACHER. Hope to get up to five.

Mr. SHERMAN. Please identify yourself for the record.

Mr. ALDONAS. I am John Aldonas, managing director of the Small and Medium Enterprise Finance, OPIC.

Mr. MANZULLO. Thank you, Mr. Chairman.

Mr. SHERMAN. Thank you. It looks like we have concluded the first panel, but I am going to sneak in one more question and maybe you will answer it for the record if you don't have it right offhand.

You told us 87 percent of your projects involve small- and medium-sized businesses. Any idea on dollar value of projects, those involving small businesses, those involving large and those projects that involve both?

Mr. MOSBACHER. Right. Our calculation for fiscal year 2006 was \$320 million in terms of the dollar volume of small- and medium-sized business projects.

Mr. SHERMAN. And on the larger side?

Mr. MOSBACHER. In terms of the largest we have had?

Mr. SHERMAN. Well, no. Okay. You did \$320 million of projects involving small- and medium-sized businesses. Appropriated—how much of the total dollar value did projects not involving small and medium businesses, just involving large businesses?

Mr. MOSBACHER. Right. Probably about \$2 billion.

Mr. SHERMAN. All right. So one is 87 percent, the other is a ratio of \$2 billion on the one hand, \$300 million on the other.

Mr. MOSBACHER. Yes. But I would mention again that the vast majority of those are \$10 million and less. So I think we are getting a pretty good bang for the buck there.

Mr. SHERMAN. Thank you very much.

Mr. MOSBACHER. Certainly. Thank you very much Mr. Chairman.

Mr. SHERMAN. Look forward to working with you, and I am still going to try to understand reserve process in greater detail than I do now. But it is now time to hear from that second panel.

Mr. MOSBACHER. Thank you.

Mr. SHERMAN. As they are getting up, I will sing their praises. The first of our witnesses from the second panel is Jonathan Sohn, a senior associate at the World Resources Institute where he heads the effort on financial flows objectives. He regularly engages with commercial banks and public financial institutions to identify envi-

ronmental risks and opportunities with an emphasis on energy and climate change.

We will then hear from Jeff Vogt. He is the global economic policy specialist at the AFL-CIO, and, in that capacity, works to shape international economic policy so the benefits work for people in the United States and abroad. Before joining the AFL-CIO he was an analyst of United States foreign policy toward Latin America and represented trade unions in the United States internationally.

We will also hear from Frank Gaffney, founder and president of the Center for Security Policy here in Washington, DC. The Center is a nonprofit, nonpartisan, educational corporation established in 1988 which specializes in foreign and defense policy. Mr. Gaffney is a leading advocate for identifying the economic levers available to the United States and then applying them to put economic pressure on terrorist states.

Lastly we will hear from Tim Kane, one of The Heritage Foundation's leading scholars on economic policy. He is the lead editor and author of the *Annual Index of Economic Freedom* which is co-published with the *Wall Street Journal*. Let us first hear from Mr. Sohn.

**STATEMENT OF MR. JONATHAN SOHN, SENIOR ASSOCIATE,  
WORLD RESOURCES INSTITUTE**

Mr. SOHN. Mr. Chairman and distinguished members of the committee, thank you for inviting me to testify on the value of reauthorizing OPIC. I am Jon Sohn, a senior associate at the World Resources Institute.

The following is a brief summary of my full comments submitted for the record. WRI engages financial institutions to shift investment to sustainable companies and projects. We work in partnership with governments, businesses, scientists, and nongovernmental organizations in more than 70 countries.

In our testimony WRI presents ideas that not only make sense for the environment but also make good business sense and will empower OPIC to play a global leadership role in development finance, if enacted into legislation.

During the past few years, OPIC has made a number of promising investments, including an energy efficiency fund and increased access to water services. These types of investments need to reflect a growing percentage of OPIC's overall portfolio. The challenge is for OPIC to scale up these sustainable investments and manage the risks of environmentally sensitive projects in its current portfolio and pipeline.

Our testimony focuses on three policy areas that should be addressed prior to OPIC reauthorization that the financial leaders in the public and private sector are all addressing: Climate change, local community consent, and transparency and accountability.

First, climate change. In February 2007 the Intergovernmental Panel on Climate Change released its report on climate science. The report states that it is "unequivocal" that the Earth's climate is warming and that current atmospheric concentrations of greenhouse gases far exceed any natural range. A recent report by Sir Nicholas Stern, former chief economist of the World Bank, high-

lights the financial risks for the global economy of failing to address climate change. Calling climate change the greatest market failure the world has ever seen, Stern's report appeals for strong international and coordinated government policies to encourage greenhouse gas reductions. OPIC should be a part of this solution.

Prior to reauthorization Congress could guide OPIC to develop a climate change action plan with measurable targets and outcomes. Options to consider include clean energy targets, reducing carbon emissions in OPIC's lending portfolio, reviewing oil investment legislation under the Foreign Assistance Act and developing innovative financing mechanisms. Companies like Citigroup, Goldman Sachs, General Electric, and Caterpillar are all moving on climate change.

Moving from the global to the local level, Congress should guide OPIC to develop a standard, encouraging clients of the agency to obtain the free, prior, and informed consent of communities impacted by its investments. WRI's report of "Development without Conflict," the business case for community consent, can be a valuable tool to help. The free, prior, informed consent principles suggest that affected communities have the right to approve how projects are designed and implemented. It goes beyond mere consultation, toward binding agreements enforceable over the lifetime of a project. The International Finance Corporation now requires its clients to obtain broad community support of projects it finances.

Finally, I would like to address transparency and accountability at OPIC. If one looks back at the testimony provided by members of the environmental community during the 2003 reauthorization, concerns were raised with respect to OPIC drifting from its development mandate. OPIC was coming off an extended period of questionable investments with Enron and other projects with difficult environmental and development outcomes. In 2003 Congress set OPIC on a reform path with at least two key initiatives: establishment of an Office of Accountability to evaluate agency compliance with its own standards, and a transparency initiative to enhance information disclosure and internal policy mechanisms for development issues.

It is good to see that OPIC's Office of Accountability is now in place. However, it is important to note that its scope has been proven to be too limited to adequately improve sensitive projects, as the office cannot review client compliance with OPIC policies and contracts and improve client performance.

OPIC also made good steps by releasing a 2006 list of transparency initiative commitments. It remains uncertain how these voluntary commitments are mainstreamed into agency policy in a substantive and accountable manner.

Other issues raised in this dialogue have simply not been addressed by OPIC. Ongoing investments such as the BTC pipeline and proposed support of a cobalt mine in the Democratic Republic of Congo further underscore the need for heightened standards in transparency and accountability.

To finally fulfill the transparency and accountability vision Congress set forth for OPIC in 2003, the following ideas should be considered:

Establish clear legislation to implement the 2006 transparency commitments made by OPIC.

Expand transparency requirements to the release of environmental and development impact monitoring reports and relevant contract conditions and allow public comment on these materials, and expand the scope of OPIC's Office of Accountability.

Mr. Chairman, I thank you for this opportunity and look forward to working with you and the committee on OPIC's reauthorization.

[The prepared statement of Mr. Sohn follows:]

PREPARED STATEMENT OF MR. JONATHAN SOHN, SENIOR ASSOCIATE, WORLD RESOURCES INSTITUTE

Mr. Chairman and distinguished members of the Committee, good morning and thank you for inviting me to testify on the value of reauthorizing the Overseas Private Investment Corporation (OPIC), specifically with respect to OPIC's mission of fostering foreign economic development in a manner that protects the environment at a local, regional and global level. I am Jon Sohn, Senior Associate of the World Resources Institute (WRI).

The Financial Flows Objective of the World Resources Institute engages financial institutions to shift investment to sustainable companies and projects. Our innovative research informs banks and investors about the value of taking action on the most pressing environmental and social challenges. WRI works in partnership with governments, businesses, scientists and non-governmental organizations in more than 70 countries. For over 25 years, WRI has provided information, tools and analysis to address climate change and the degradation of ecosystems, while working to increase access to information and improve people's lives. In the testimony below, WRI presents ideas that not only make sense for the environment but also make good business sense. In that respect, I will for example, draw your attention to a new WRI report: *"Development Without Conflict: The Business Case for Community Consent."*

OPPORTUNITY FOR LEADERSHIP

WRI supports OPIC's core mission of economic development that promotes human rights, core labor standards and broad environmental goals. My testimony today will provide some key policy markers that are suggested for Congress to enact prior to the reauthorization of OPIC. These policy markers will enable OPIC to play a leadership role within international finance and development. During the past few years OPIC has made a number of promising investments including supporting a \$300 million energy efficiency fund with AIG International, rural electrification projects, increased water access services and providing international relief funds in sensitive political environments. These types of investments need to reflect a growing percentage of OPIC's overall portfolio in terms of aggregate dollars and development impact. The challenge for OPIC is to strategically plan to scale-up its support of positive, sustainable investments. At the same time, a significant number of environmentally and socially sensitive projects exist in the current OPIC portfolio and continue to come through the investment due diligence pipeline. Congress can use the opportunity of reauthorization to keep OPIC on a prudent course towards sustainability while also lowering portfolio and project risk.

My testimony focuses on three policy areas that financial leaders in the public and private sector are all addressing:

- Climate Change
- Local Community Consent
- Transparency and Accountability

DEVELOPING A CLIMATE CHANGE ACTION PLAN

In February 2007, the Intergovernmental Panel on Climate Change (IPCC) released its report on climate change science. The report states that it is "unequivocal" that the Earth's climate is warming, and confirms that the current atmospheric concentrations of CO<sub>2</sub> and methane, two important greenhouse gas emissions, "exceeds by far the natural range over the last 650,000 years." Many scientists believe we must limit global warming to no more than 2 degrees Celsius to avoid the worst impacts of climate change, and therefore we must avoid atmospheric concentrations of carbon dioxide that exceed 450–500 parts per million. To do this global emissions

must be reduced by 60–80% below current levels during this century. A recent report by Sir Nicholas Stern, former chief economist at the World Bank, highlights the financial risks for the global economy of failing to address climate change. Calling climate change “the greatest market failure the world has ever seen” Stern’s report appeals for strong, international and coordinated government policies to encourage GHG reductions. Accordingly, it is imperative that Congress employ every U.S. Government tool to tackle the climate change challenge and realize the global business opportunities that are emerging in clean technology. OPIC should be a more significant part of the solution as a condition of reauthorization.

Prior to OPIC reauthorization, we suggest that Congress set the agency on a path towards the development of a *Climate Change Action Plan* to mitigate greenhouse gas emissions and increase support for clean, renewable energy and energy efficiency. The Action Plan should be developed with OPIC stakeholders with a view to designing measurable targets and outcomes that support the growing energy needs of emerging markets in a clean, safe and efficient manner while actively mitigating global greenhouse gas emissions. A broad menu of options could be considered as part of this Climate Change Action Plan:

- *Ambitious targets for renewable energy and energy efficiency.* Set measurable targets for clean, renewable energy. In the past few months alone, OPIC private sector counterparts Citigroup and Bank of America set clean energy investment targets of \$50 billion and \$20 billion respectively. On the public side, the World Bank Group has adopted a target to increase investment in “new renewable energy” by 20% annually.
- *Reducing the Carbon Footprint of OPIC’s Lending Portfolio Carbon Footprint.* Reduce the overall cumulative emissions in individual projects and the broader aggregate portfolio. The World Bank Group has made commitments to account for and reduce the total emissions in its portfolio and the IFC now has a performance standard requirement to seek project-level mitigation options.
- *Review Fossil Fuel Extraction Investments.* Review input that suggests amending the Foreign Assistance Act (22 U.S.C. sec. 234(c)–(d)), which currently prohibits the agency from directly investing in oil or gas extraction and surveying, by extending this provision to other forms of OPIC assistance for a broader set of oil development and delivery activities, e.g. pipelines.
- *Innovative Financing Mechanisms* Explore and establish more flexible lending terms and innovative financing mechanisms that support clean energy technologies. For example, the Export-Import Bank provides extended loan repayment terms for renewable energy.

#### DEVELOPING A BUSINESS CASE AND STANDARD OF FREE, PRIOR, INFORMED, CONSENT FOR LOCAL COMMUNITIES

Moving from the global level to the local, it is imperative that OPIC play a leadership role in empowering local communities impacted by its projects to have an increasingly strong voice in development decisions. Congress should guide OPIC to develop a standard that will require clients of the agency to obtain the free, prior and informed consent of communities impacted by its investments. OPIC should enhance its due diligence requirements to meet this goal. WRI’s report, *“Development Without Conflict: The Business Case for Community Consent”* can be a valuable tool for OPIC to operationalize the principles that support this standard as a core strategy of risk mitigation and opportunity identification.

FPIC is a legal and normative term in sustainable development. The FPIC principle suggests that affected communities have the right to approve how projects are designed and implemented. FPIC goes beyond mere Environmental Impact Assessment consultation, towards a set negotiated binding agreements enforceable over the lifetime of a project. The term finds its roots in International Labor Organization Convention 169 for indigenous peoples but has increasingly been implemented in national laws for communities broadly. Public and private banks are developing standards that are moving towards community consent. The International Finance Corporation now requires its clients to engage in “free, prior, informed consultation” with local communities that leads to demonstrated “broad community support” of a given project.

WRI carefully reviewed a number of large-scale development projects around the world including direct engagement due diligence with companies and communities on the ground. Based on studies of a Shell gas project in the Philippines, a Newmont mine in Peru, a proposed Meridian mine in Argentina, a water services privatization in Bolivia and a wastewater treatment plant project in Thailand and additional engagement with other leading multinational corporations, we find that

there is a clear business case for operationalizing consent principles in environmentally sensitive projects. WRI finds that:

- When businesses get it right, achieving consent can benefit local communities and project sponsors.
- The business risks of going forward with a large-scale project in a community without its acceptance can threaten the viability of a project.
- Community opposition can arise from impacts that are generated at any stage in the project cycle.
- Addressing issues of community concern before a project begins is likely to be more successful and cost-effective than responding to community opposition later on.
- The risks of failing to achieve community consent are not borne exclusively by the project sponsor. Other stakeholders such as shareholders, financiers and host governments can also have their interests adversely affected by conflicts that may result from a failure to achieve consent.
- Engagement or mere consultation may not always be sufficient to fully address these risks.

The report also finds that companies that achieve FPIC gain a competitive advantage in the form of project cost savings, reputation, and greater access to international finance. OPIC can play a leadership role by moving to adopt this standard.

#### INCREASING TRANSPARENCY AND ACCOUNTABILITY AT THE INSTITUTIONAL AND PROJECT LEVEL

If one looks back at the testimony provided by members of the environmental community from 2003, a number of concerns were raised with respect to OPIC drifting significantly from its mandate of sustainable development. In 2003, OPIC was coming off a decade of increasing investment in large-scale projects with difficult environmental and development outcomes and in some instances no lasting development benefits to impoverished countries. OPIC also had a series of other portfolio investments that strayed from its development mission including support for building international 5-star hotels and luxury tourist adventure facilities. OPIC was also a significant financier of a number of failed Enron-led projects including damming and economically questionable investments in the Dabhol Power Plant in India and the Cuiaba Gas pipeline running from Bolivia to Brazil.

Congress chose to set OPIC on a path of enhanced environmental standards, transparency and accountability with a view to shifting OPIC's portfolio to more sustainable companies and projects with more obvious development benefits. Two key reform efforts were initiated at OPIC as part of the Overseas Private Investment Corporation Amendment Act of 2003: 1) Establishment of an Office of Accountability (OA). This office was indeed initiated by OPIC to evaluate agency compliance with environmental, social, labor, human rights and transparency standards, and to create a forum and provide advice for resolving concerns about the impact of OPIC projects; and 2) Establishment of a "Transparency Initiative" to :

*"[H]eighten transparency and information disclosure concerning OPIC's projects and internal mechanisms, consistent with existing statutes and laws. Interested stakeholders, including NGOs, environmental and labor organizations, and the business/investor community, should play an active role in this process and provide recommendations on how it should be used to strengthen OPIC's program policies."*

OPIC made a good first step by releasing a 2006 list of Transparency Initiative commitments yet it remains uncertain how these voluntary commitments are mainstreamed into agency policy decisions in a substantive and accountable manner.

While these transparency and accountability efforts at OPIC are important steps in the right direction, many stakeholders engaged with OPIC on the processes find that implementation has proven to be a challenge in terms of meaningful change in practices at the agency or on the ground in developing countries. In addition, several investments are still causing environmental and social risk or are simply not transparent enough for the public to be informed. Below please find a few illustrative examples of OPIC investments that, together with the uncertain pace and depth of 2003 reform efforts, warrant enhanced transparency and accountability measures during this reauthorization:

- BP's Baku-T'Blisi-Ceyhan (BTC) pipeline project, which transects 1,760 kilometers of Azerbaijan, Georgia and Turkey. This oil pipeline project impacts

several environmentally sensitive areas. A complaint was brought under OPIC's new Accountability Mechanism by local communities because of widespread cracking of anti-corrosion coating on the pipeline. Independent analysis by some experts suggests that the potential failure of this anti-corrosion coating greatly increases the risk of oil leaks and spills over the life of the project, with consequent threats to the natural environment and human health. The OPIC Office of Accountability (OA) final report on the matter acknowledges that these issues are real and were not brought to OPIC's attention by the project sponsors prior to approval of \$141 million in project risk insurance. It also presents a number of recommendations on improving environmental monitoring of the project. Yet the Accountability Office report also underscored the scope of its powers: the OA can only review whether the agency has complied with its own policies, not if OPIC clients are in compliance with those policies and positive strategies to manage those risks.

- Increasingly OPIC is investing broadly in banking services without clearly identifying to the public the specific use of these proceeds by these financial institutions. In 2006 alone, OPIC provided over \$1 billion in finance to private sector financial institutions who then use those cash proceeds to on-lend to other commercial banks or individual projects. These investments figures are direct finance and do not include OPIC exposure in its investment fund portfolio. Based on publicly available information it is unclear how this money has specifically been used or what impacts these investments might have on the environment. This follows a broader trend among development banks over the last decade in which the volume of lending has increased to financial intermediaries that in turn lend to or invest in subprojects with a view to development and expansion of domestic financial markets. WRI's report on the role of Financial Intermediary Lending and Environmental Risks provides tools for managing such risks where appropriate.
- Currently, OPIC is considering support for the Tenke Fungurume copper-cobalt mining project in the Democratic Republic of the Congo. This investment comes in the context of an international appeal by civil society for the potential revision of mining contracts that some fear are unfavorable to the Democratic Republic of the Congo (DRC) and local communities. At issue is the fair division of the benefits from mining, and the corresponding risk that the reconstruction and development of the country could be compromised. Some aid organizations are calling on the Congolese Government and international financiers to review contracts inherited from the country's civil war and the transition in order to ensure that the Congolese people derive an equitable share from the benefits of the exploitation of the country's mineral wealth.

In order to fulfill the transparency and accountability vision set forth by Congress in 2003, the following ideas are put forward for the 2007 reauthorization. OPIC can:

- Establish clear policies and implementation mechanisms to operationalize the Transparency Commitments made as of September 2006.
- Expand transparency requirements to the public release of environmental and development impact monitoring reports.
- Enhance due diligence of development impact monitoring methodologies to include criteria to take in the views of public stakeholders.
- Enhance, to the extent feasible, OPIC project level transparency requirements with respect to contract conditions.
- Expand the role of OPIC's Office of Accountability to have a clear mandate to review client compliance with relevant OPIC policies.
- Review the various project and investment risks noted above with respect to the BTC pipeline, use of proceeds to specific subprojects banking service investments, and the economic and development challenges of the Tenke Fungurume mining project in the DRC.

Mr. Chairman, I thank you this opportunity and look forward to working with you and the Committee during this reauthorization process. OPIC has an opportunity to expand U.S. leadership on high environmental standards while increasing investment in sustainable development.

Thank you.

**Mr. SHERMAN.** Thank you very much.  
Now let's hear from Mr. Vogt.

**STATEMENT OF JEFF VOGT, ESQ., GLOBAL ECONOMIC POLICY  
SPECIALIST, AFL-CIO**

Mr. VOGT. Mr. Chairman, members of the committee, I thank you for the opportunity to testify today on behalf of the 10 million working men and women of the AFL-CIO on the reauthorization of the Overseas Private Investment Corporation.

OPIC's reauthorization request presents the committee with a critical opportunity to review its effectiveness and to make necessary reforms to the laws that govern its operations. The AFL-CIO generally supports the mission of OPIC, which is to strengthen our trade balance and create jobs, and it contributes to sustainable developments and sustainable and equitable development abroad, based on full respect for workers' rights, human rights, and the environment.

However, we remain concerned that OPIC is not fully compliant with its statutory mandate. We believe that OPIC continues to support corporations that have committed workers' rights violations abroad. The positive effect on U.S. employment appears in some cases speculative, particularly given the size of the investments. Moreover, there is little transparency and information available to assess whether these projections are based on realistic information.

As to the impact of job creation and development abroad, the information provided by OPIC is also equally vague, and the methods used to assess the impacts on development both before and after project approval we feel are insufficient to predict positive broad-based development.

And, fourth, the lack of transparency in general makes it difficult for civil society to participate meaningfully in raising relevant concerns prior to project approval and in monitoring projects once underway.

In the interest of the limited time I have, I would like to focus on the first two points I raised with regard to worker rights and jobs.

The statutes provide that OPIC can only support those projects in which a country is taking steps to adopt and implement laws that extend internationally recognized workers' rights. This was a standard that was incorporated from the generalized system of preferences and allows OPIC to support those projects in countries. But the sinking substandard, we feel and we have seen in other statutory mechanisms, allows agencies to support projects in countries where laws fall far short of international standards and with poor record of compliance with laws so long as the government can argue that they are making at least some sort of progress. And their review of OPIC's annual reports for the last few years, 2004–2006, reveals that OPIC has supported projects in countries that have been harshly criticized by the ILO and the State Department for failing to uphold internationally recognized workers' rights. For example, Colombia, El Salvador, Guatemala, Bangladesh, and Zimbabwe, where just this year several leading trade unions were beaten severely by agents of the government.

When we look at the project level, the Office of Investment Policy is required to review the investor's application once the project officer has confirmed the project otherwise satisfied or qualifies for OPIC support. The Office is supposed to ensure that a project

meets all the statutorily mandated requirements, including worker rights. But in reviewing the 2006 annual report, we found a \$7 million financing project improved for the—these funds went to Citigroup Incorporated Investment Bank for a Coca-Cola bottling distribution plant improvement for Corporacion Jos R. Lindley.

Having worked with trade unions in Peru I was aware of this case before looking even at the 2006 annual report. This is a case where over 200 workers were illegally fired. Over half of them were trade union members. The company refused to bargain with the union over the effects of the layoff, and when the Ministry of Labor of that country required Lindley to reinstate the workers, the corporation simply defied the government. And we believe a careful review of the company's past practice would have revealed these facts and would have raised serious concerns as to whether the company, which had recently defied the government in 2004 and 2005, would respect worker rights in 2006.

In a conversation I had with OPIC earlier this month to figure out, you know, how they go about doing these assessments, it is not at all clear that they are going about getting the information in the correct way. I was told that even in cases where a union does represent a substantial portion of workers in an enterprise, there is no consistent policy of actually talking to trade union representatives. Workers are often interviewed within the facility or on the plant floor. They had told me, actually, that they had interviewed workers in the board room of a corporate office. You are not going to elicit the kind of information you need to assess whether worker rights are actually being respected when you are interviewing workers in the conference room of the corporation.

And we have additional concerns which I could address later on about how they continue to monitor labor rights practices once a project has been authorized.

We do also have concerns on the impact on U.S. jobs, although if I could make a distinction with the other comments made earlier, while ours is more a question of transparency and looking to see where—we see that the—the estimates given for U.S. jobs created in the United States are based on, you know—the corporation says it will procure so much from within the United States. These seem to be estimates, at best, and I know when OPIC has gone back and reviewed these, they found out the actual jobs created were much lower than anticipated.

We also have concerns about the transparency around some of these investment funds where millions are given to funds where we don't know into what they are investing, and what impact that is going to have either in the development there or the impact on job creation in the United States.

So I will sum it up there, and I will be happy to take any questions.

[The prepared statement of Mr. Vogt follows:]

PREPARED STATEMENT OF JEFF VOGT, ESQ., GLOBAL ECONOMIC POLICY SPECIALIST,  
AFL-CIO

Chairman Sherman, Members of the Committee, I thank you for the opportunity to testify today on behalf of the ten million working men and women of the AFL-CIO on the reauthorization of the Overseas Private Investment Corporation (OPIC). OPIC's reauthorization request presents the Committee with a critical opportunity

to review its effectiveness and to make needed reforms to the laws that govern its operations.

#### INTRODUCTION

Investment by U.S. companies abroad can support U.S. exports and jobs, but there is no automatic relationship between outbound FDI and American jobs. At present, U.S. foreign direct investment in manufacturing in developing countries is continuing to increase. Much of this increase goes to producing goods destined to be exported to the United States. Whether investors are shifting existing production or choosing to locate new production abroad, too often the result is an increase in imports greater than any linked increase in exports.

This phenomenon of outward FDI has contributed to the deterioration of our trade balance. Each year seems to bring another record-breaking trade deficit in the U.S. Last year, our trade deficit in goods and services reached a staggering \$764 billion—over six percent of GDP—creating a drain on our economy and vulnerability in our long-term economic health. The human cost of this unsustainable trade deficit is lost jobs and stagnating wages. Altogether we have lost 3 million manufacturing jobs since 2001, and we now have fewer manufacturing jobs than we did forty years ago. These are jobs that pay good wages and provide decent benefits. For generations, these jobs have provided a ladder to the middle class for the majority of workers who lack a college education. Now these jobs are disappearing—many of them permanently—with lasting consequences for workers, their families, and their communities.

American workers who have seen their jobs shipped overseas have been told that their loss is a gain for workers in developing countries, and that investment in overseas production is stimulating real economic and social development. There is no doubt that FDI has the potential to contribute to a developing country's economy by providing access to new employment, skills, and technology. But there is real reason to doubt whether the current rules regulating FDI are ensuring that these benefits actually materialize and that they are shared equitably. Compared to the period from 1960 to 1980, growth in the developing world has been lower, not higher, than in the period of booming trade and investment from 1980 to 2000. And workers' rights continue to be violated with impunity, with profits from this abuse enriching some of the wealthiest corporations in the world.

That is where OPIC can help to make a difference. To fulfill the need for high-quality, job-creating, development-enhancing foreign direct investment that is currently not being met by the private market, OPIC must set the highest possible standards for our investors. Below are some observations as to how OPIC can better ensure that each and every project it supports strengthens our trade balance and creates U.S. jobs, and contributes to sustainable and equitable development abroad based on full respect for workers' rights, human rights, and the environment.

#### I. WORKER RIGHTS

The inclusion of internationally recognized worker rights in the OPIC statute in 1986 was a significant step forward, in that it offered to workers in developing countries a tool to hold their governments and their employers accountable with respect to internationally recognized worker rights. However, the experience of worker rights advocates with the implementation of the statute over the years has demonstrated important shortfalls in ensuring that worker rights are actually respected in all OPIC-supported projects. In addition to the statute's limitations, we are concerned about the way in which OPIC undertakes its worker rights assessments both before and after project approval. In reviewing recent projects, it is apparent that the methodology for determining whether workers' rights are respected—in the country or on the project—prior to project approval is insufficient to screen out potential and actual labor rights violators.

##### *a. National Law and Practice*

By statute, OPIC can only support those projects in which the country is “taking steps to adopt and implement laws that extend internationally recognized worker rights.”<sup>1</sup> However, the “taking steps” standard, incorporated from the Generalized

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<sup>1</sup> 22 U.S.C. § 2191a. The statute incorporates the definition of “internationally recognized worker rights” from the Generalized System of Preferences, 19 USC 2467(4). The term includes: the right of association; the right to organize and bargain collectively; a prohibition on the use of any form of forced or compulsory labor; a minimum age for the employment of children; and

Continued

System of Preferences (GSP), allows OPIC to support projects in countries with laws that fall far short of international standards and with a poor record of compliance with its laws, so long as the government can argue that at least some progress is being made. This concern is not academic. In many cases, petitions filed under the worker rights provisions of GSP, and other unilateral trade preference programs, alleging violations of worker rights were rejected or dropped after a short period of review after a country made only marginal improvements in law or in practice—even though overall labor conditions remained dismal.<sup>2</sup>

Moreover, the statute does not establish a minimum threshold of compliance with international norms, allowing a country to qualify if it is taking steps from an already low level. A country that takes a step up from 20% to 30% compliance with international norms, or that makes progress on one right, but continues to limit or prohibit another, could still qualify.

Finally, the statute provides broad executive discretion as to worker rights. If OPIC determines that a country does not comply with the statutory conditions on worker rights, the President may waive the conditions, pursuant to § 2191a(3), if s/he determines that it would be in the “national economic interests of the United States.” Such a vague and unbounded standard opens the door for political and economic interests to supersede the rights of workers, even in the most extreme cases.

A review of OPIC annual reports for 2004–2006 reveals that OPIC supported projects in several countries that have been harshly criticized by the International Labor Organization (ILO) and the U.S. State Department for failing to uphold internationally recognized worker rights, including Colombia, El Salvador, Guatemala, Bangladesh and Zimbabwe, to name only a few. Thus, a review and strengthening of the statutory language regarding worker rights is urgently needed.

#### *b. Company Practice*

The Office of Investment Policy (OIP) is required to review the investor’s application once the project officer has confirmed that the project otherwise qualifies for OPIC support. The OIP is supposed to ensure that the project meets all of the statutorily mandated requirements, including the environment, worker rights, human rights and economic impact. As to worker rights, OPIC is prohibited from providing assistance for any program, project, or activity that contributes to the violation of “internationally recognized workers rights.” However, we have concerns over the methodology used to determine whether a project will contribute to the violation of these rights.

For example, the OPIC 2006 Annual Report indicates the approval of a \$7 million financing project in Peru. The funds, which were awarded to Citigroup Corporate and Investment Bank for Corporación José R. Lindley, S.A., financed the expansion of a Coca-Cola distribution plant. A careful review of the project would have revealed that José R. Lindley had engaged in aggressive anti-union activity in the previous two years.<sup>3</sup>

In 2004, José R. Lindley, S.A. emerged to become the exclusive bottler of Coca Cola in Peru. In May of that year, José R. Lindley restructured the company and fired 233 workers, 133 of which were union members. JR Lindley also dismissed the union’s General Secretary, Julio Falla Juárez, even though he had legal protection from dismissal (“fuero sindical”). The union alleged that the objective of the reorganization, and the subsequent dismissals, was to break the union and to reduce the number of directly hired employees. In Peru, employer have often dismissed directly employed workers in order to replace them with new employees hired through third-party contacting schemes. The advantage to the company is that this reduces its wage and benefit obligations, while also making it far more difficult to form a union.

Although the law required José R. Lindley to negotiate with the union regarding the terms of the dismissal and over the measures necessary to limit personnel reduction, the company failed to do so. As a result, the Ministry of Labor rejected the mass dismissal and ordered José R. Lindley to reinstate the dismissed workers. The company refused to do so, prompting the union to file a lawsuit demanding the reinstatement of the workers. The union won the case, but the company disobeyed the judicial order.

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acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health.

<sup>2</sup>The repeated petitions against such countries as Guatemala and Bangladesh provide ample evidence of this phenomenon.

<sup>3</sup>Proposed projects under \$25 million are not presented to the Board of Directors for a full review and approval. Had the projects been submitted to the Board, the labor representative could have had the opportunity to raise his concerns about the labor conditions at José R. Lindley. We recommend that projects under \$25 million also be presented to the Board, or at the very least the Board’s labor representative, for review.

Later that year, the union attempted to bargain collectively with the company. However, the negotiations were delayed for almost seven months due to the company's refusal to table a final proposal. Eventually, the union broke off talks and initiated a strike on September 30, 2004. During the strike, workers were attacked by police and by day's end, eight trade unionists were detained and four were injured. Since then, the company paid most of the remaining union members a small sum for their voluntary resignation. Today, the union has nearly disappeared.

One would hope that a review of the company's past practice would have revealed these facts and would have raised serious questions as to whether the company, which had recently defied the Ministry of Labor in 2004–05, would respect worker rights in 2006. As the José R Lindley project is relatively small in comparison to others, it is unclear whether OPIC's review included an on-site visit or any other type of local investigation. Since none of the OIP clearance reports are available, it is also unknown whether OPIC was aware of these facts or took any action to address these matters or extract any additional commitments from José R Lindley (other than inserting boiler-plate contract language—discussed below—which requires a company not to contribute to violations of internationally recognized worker rights in the future).

In a call to OPIC earlier this month regarding another project of concern in Peru, I was informed that OPIC normally bases its assessment of worker rights—at the national and project level—on information provided by the U.S. Embassy, the project's management and, in most cases, workers. The workers interviewed for the assessment are either selected by management or at random by OPIC representatives. I was informed, however, that OPIC does not interview the worker in a neutral setting, but has conducted past interviews in company conference rooms or in the worksite (e.g., assemblyline). Information so obtained is by its nature suspect, as workers often feel reluctant or scared to divulge information to monitors lest they suffer retaliation in the form of discipline or dismissal. I was also informed that it was not OPIC's consistent practice to speak to union representatives, even when a union exists in a company and represents a substantial percentage of the workforce. Thus, it is not surprising that the information obtained, in some cases, may not accurately reflect the reality for workers.

Once approved, the statute requires OPIC to include a commitment on workers' rights in its contracts with investors. However, this language is unacceptably weak. Investors must agree not to take actions to prevent workers from exercising their right to freedom of association and the right to organize and bargain collectively. But they only have to meet local legal standards on child labor and acceptable conditions of work, no matter how far below international standards the country's laws may be on these issues. In addition, investors are explicitly not held responsible for failures of the host government to guarantee workers' rights.

In its 2006 Development Report, OPIC notes that where applicable laws fall below ILO standards as to minimum age and acceptable conditions of work, it will add additional contractual language requiring the investor to meet the relevant ILO standards.<sup>4</sup> Although we appreciate OPIC's initiative to include additional contractual language, it is doing so at its own discretion. The statute should be amended to reflect current practice.

Following the commencement of a project, OPIC will monitor compliance with workers' rights conditions either by asking investors to fill out annually a short questionnaire or by conducting random inspections. However, the questionnaire as to labor conditions contains only one question, and investors must simply put a check next to any conditions that applied within the past year. Those conditions are simply "labor union," "collective labor agreement," "strike," "hazardous labor," whether anyone was employed under the age of 18, and the maximum hours worked per week. The checklist requires more information only if the child labor box is checked. Thus, the information provided in this checklist is completely inadequate.

There is absolutely no possible way that OPIC can assess from this checklist whether the investor has in fact interfered with its workers' right to organize an independent union, discriminated against union organizers, set up its own employer-dominated union to break an independent organizing drive, refused to bargain in good faith with an independent union, or fired striking workers. In addition, the information provided in the checklist is treated as "business confidential," depriving workers and the public of any knowledge about the labor conditions investors are claiming to have met.

OPIC uses a random selection process to determine which projects it will site-monitor. According to OPIC's website, "site-monitoring is broken into three-year 'cy-

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<sup>4</sup> OPIC, Host Country Development and US Economic Effects of OPIC-Assisted Projects, Fiscal Year 2006 (March 2007), p. 26. Hereinafter "OPIC 2006 Development Report."

cles' that include all OPIC-supported projects from a three-year period."<sup>5</sup> Thus, three years will pass before the first time the project is put into the pool of projects subject to a potential site inspection. In that time a union could form and be busted. Thus, it is unlikely that a worker rights violation will be detected unless the employer self-reports, or labor rights advocates discover the violation and submit a complaint.

*Recommendations on Workers' Rights:*

- 1) The law should require OPIC to ensure that each country in which it supports projects is in full or substantial compliance with internationally recognized worker rights and the core labor standards as defined by the ILO. The "taking steps" standard in current law is simply insufficient to ensure that workers' rights will actually be respected. This condition should not be subject to waiver.
- 2) In addition, investor contracts should insure that investors comply with relevant international standards (as defined by the ILO) on freedom of association, the right to organize and bargain collectively, child labor, forced labor, and discrimination.
- 3) OPIC needs to make effective monitoring of workers' rights conditions a high priority. OPIC needs to dedicate appropriate levels of funding and expertise to the task. Compliance officers must have the ability to initiate their own investigations, make on-site visits, and conduct confidential interviews with workers and their representatives, as well as with local labor ministry officials and ILO representatives. Compliance monitoring should not have to rely on minimal self-reporting or on outside complaints.
- 4) One way to increase the effectiveness and independence of labor rights monitoring would be to ensure that the Office of Accountability is well staffed and has the autonomy to initiate its own investigations and report directly to the OPIC board on the results of these investigations.
- 5) Information gathered in the monitoring process, and any information on decisions taken as a result of such monitoring, should be available to workers and the public.

## II. IMPACT ON U.S. JOBS

It is of paramount importance that government funds for development do not undermine domestic production or accelerate the outsourcing of U.S. jobs. Thus, OPIC's statute requires it to "further to the greatest degree possible . . . the balance of payments and employment objectives of the United States."<sup>6</sup> OPIC is also required not to support investments where it determines that the investment is likely to cause a significant reduction in the investor's U.S. workforce or a significant reduction in U.S. employment generally.<sup>7</sup> In addition, OPIC must deny support to any "investment subject to performance requirements which would reduce substantially the positive trade benefits likely to accrue to the United States."<sup>8</sup> However, OPIC is only directed to "consider" the possible adverse effect of the investment upon the balance of payments of the United States.<sup>9</sup>

*a. Assessing the U.S. Impact*

Each year, OPIC issues a report on the impact of OPIC-supported production on the manufacture of similar products in the U.S. and on jobs in the U.S. The OPIC 2006 Development Report states that for its investment of \$2.85 billion, roughly 2,767 jobs were created in the U.S.<sup>10</sup> However, there is scant information as to how OPIC arrived at that number other than its explanation that it drew on company information regarding expected initial and ongoing procurement and uses multipliers to determine direct and indirect employment created. As to job loss, there is no information other than the bald assertion that none of the 2006 projects are expected to result in job losses in the U.S. The methodology employed to calculate job creation and loss must be explained in greater detail, and the information on which the projections are based should be disclosed.

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<sup>5</sup> See OPIC website, at <http://www.opic.gov/doingbusiness/investment/pmsmq/index.asp>.

<sup>6</sup> 22 U.S.C. § 2191(h)

<sup>7</sup> 22 U.S.C. § 2191(k) and (l)

<sup>8</sup> 22 U.S.C. § 2191(m)

<sup>9</sup> 22 U.S.C. § 2197(k)

<sup>10</sup> OPIC 2006 Development Report, p. 11. The report also claims that the monitoring of random projects over the last three years found about 6,500 jobs supported about 1,000 jobs less than projected.

As with the workers' rights conditions discussed above, OPIC's enforcement of the employment and trade conditions consists of a requirement that each investor complete annually a short form stating whether or not it has laid off any employees as a result of its project and listing in which countries its products have been sold. These "business confidential" forms are completely inadequate for ensuring that OPIC projects do not worsen our trade balance or cost U.S. jobs.

Most OPIC projects, such as building affordable housing, improving basic infrastructure and utilities and building schools fulfill important local needs and pose no threat to U.S. employment. However, an aborted 2005 plan to support a Ford Motor Co. auto assembly factory in Brazil does raise concerns about OPIC's commitment. If not for the intervention of the labor representative on the OPIC Board, and the urging of the United Auto Workers (UAW), the project may have been supported. The lack of public information makes it difficult to ascertain which projects may in fact pose a threat to our members, or to workers employed in the U.S. generally.

*b. Lack of Transparency on Structured Finance and Investment Fund Projects*

There is little information on OPIC's structured finance and investment funds projects. According to OPIC, "structured finance has channeled U.S. private bank loans and capital market funds into regions with a high foreign policy priority and into business sectors that generate significant developmental benefits." In the FY 2008 OPIC Budget Request, OPIC offers a summary of the Wachovia Bank Global Framework Agreement III.<sup>11</sup> "OPIC shares credit risk with Wachovia on up to \$250 million in bank loans to OPIC eligible countries. Wachovia will channel a majority of the loans to correspondent banks that will use the money to extend the tenor on small business loans and mortgages." Unfortunately, there is no information available as to where these funds will be directed, into which sectors, and for what purposes. Though most small business loans will likely not end up supporting projects that affect U.S. employment, it is impossible to know without more information.

OPIC's investment fund portfolios are similarly opaque. OPIC's investment funds make direct equity and equity-related investments in new, expanding or privatizing emerging market companies. According to OPIC, it has committed over \$2.6 billion in funding from 1987 to 2005 to 32 private equity funds. These funds have invested in more than 350 privately-owned and managed companies, mostly small and medium-sized enterprises in the developing world.<sup>12</sup> In Latin America in 2006, the AIC Caribbean Fund was developed to direct capital into new and expanding companies in the Caribbean and Dominican Republic. The fund, the impetus of which explicitly was DR-CAFTA, has a total capitalization of \$250 million, with an OPIC guarantee of \$80 million.<sup>13</sup> Although investment in Central America is certainly needed, without more information it will be impossible to monitor impacts on development, employment and worker rights. Although OPIC projects that this project will generate 350 U.S. jobs, the projection appears to be nothing more than a wild guess. To date, there is no publicly available information as to which businesses have or will be supported by the investment fund.

*c. Maintaining the U.S. Ownership Linkage*

In 2003, the Administration proposed loosening the laws governing OPIC to allow foreign-owned investors to receive OPIC support. Under that proposal, OPIC would be allowed to support a foreign investor as long as the investor could show it has "significant U.S. connections" in support of the OPIC-backed project. These "connections" could be U.S. jobs, but they do not have to be. A foreign-owned company could also receive OPIC support if it showed connections such as physical facilities in the U.S. or the payment of state or federal taxes. Under that proposal, a foreign company could receive OPIC financing for a project in Asia, and any exports to support that project in Asia could be sourced anywhere in the multinational company's global operations, just as long as the company maintained some physical facility or paid some taxes in the U.S. This loophole would have undermined one of the justifications for OPIC's existence: to help U.S. companies support U.S. jobs by exporting their goods to their overseas investments.

Although we are not aware of a current attempt to weaken the law on ownership, we strongly urge the Committee that no weakening of OPIC's employment mandate be allowed now or in the future. The simplest, fairest, and most accurate way to ensure that OPIC projects are supporting U.S. jobs is to bar support for projects that could displace U.S. workers, and to aggressively monitor the production and employment records of OPIC-backed investors.

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<sup>11</sup> OPIC, Budget Request Fiscal Year 2008 (Feb. 2007), p.22.

<sup>12</sup> See, OPIC website at <http://www.opic.gov/investment/index.asp>.

<sup>13</sup> OPIC, Budget Request FY 2008, p. 24.

*Recommendations on Trade and Jobs:*

- 1) Conditions on the trade and jobs impact of OPIC projects need to be clarified and made fully binding in law. They cannot just be general statements of policy or one among many factors that OPIC should consider in supporting projects. OPIC should be barred from supporting any project—either directly or indirectly through a financial intermediary—that would result in the loss of U.S. jobs or an increase in net U.S. imports.
- 2) As with the workers' rights conditions, compliance with conditions on the trade and jobs impact of OPIC projects must be fully monitored by staff who enjoy adequate independence and have access to sufficient resources. The methods and results of this monitoring must be fully transparent to workers and the public.
- 3) Congress must reject any future proposal that would further reduce any positive impacts of OPIC projects on our trade balance and American jobs. The trade and jobs conditions in OPIC's statute must not be weakened. Export-oriented, labor-intensive manufacturing projects are the wrong kind of projects for OPIC to support.

III. DEVELOPMENT

One of the central purposes of OPIC is to promote economic development in the developing world. Indeed, the statute directs OPIC, in determining whether to provide insurance, financing, or reinsurance for a project, to be “guided by the economic and social development impact and benefits of such a project and the ways in which such a project complements, or is compatible with, other development assistance programs or projects of the United States or other donors.”<sup>14</sup> There is little doubt that some of the projects financed by OPIC do in fact promote development, though the degree and quality of development could be debated. Again, the lack of adequate and reliable information makes it difficult to assess whether OPIC's projects are sufficiently contributing to local development.

*a. Monitoring Methodology*

OPIC is required to monitor projected and actual development impacts of the projects it supports. Effective monitoring is of course crucial to determining whether OPIC is improving its development effectiveness, meeting its development mandate, and complying with legislative requirements on workers' rights, employment impacts, and environmental impacts. However, we have concerns regarding the methodology of OPIC's development impact monitoring.

For FY 2007, OPIC inaugurated a new methodology to assess the development impact of a project. This tool appears to be similar to the previous development matrix, and in fact largely repackages many of those indicators. Criticisms of the previous methodology will not be repeated here. However, it is important to note that some of the standards from the previous methodology appear to be relaxed in the new one. For example, in previous years, a project would be deemed to have “no impact” under the job complexity indicator if the proportion of professional jobs to total jobs did not exceed 25%. In the new methodology, a project will be marked as having “some impact” as long as the ratio of professional jobs to total jobs exceeds 1%. Similarly, a project had to pay 21–35% of its revenues in taxes for the first five years in order to qualify as having a “strong impact” under the Fiscal Impact indicator. Now, a project need only pay taxes of any amount to so qualify. Neither the 2003–2008 Strategic Plan nor the FY 07 Budget Request (where the new methodology is introduced), explain why the standards were weakened. Finally, the new methodology does not reveal what weight it will assign to each of the indicators, making it difficult to determine whether a project could still qualify even if core development indicators received a low mark.

OPIC's most widely used development monitoring tool is a self-monitoring questionnaire to be completed by project sponsors. Without independent verification, self-monitoring results probably reflect the project sponsor's bias and desire to present a positive image. Since independent verification and site visits are done only on select projects, often these self-monitoring reports are the only source of monitoring information. Additionally, random, on-site development monitoring occurs only three years after project approval, which is often after the physical construction of a project (in relevant cases), when some of the most negative development impacts can occur. In other cases, the ability to redress failures in human capacity building or social effects may be long past.

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<sup>14</sup> Section 2191(1)

*b. Projects of Questionable Value to Development*

Finally, some of the projects listed in the 2006 Annual Report have a dubious impact on development, other than immediate, short-term employment. For example, the following projects do not have any obvious development impact: a \$5 million project to expand a cinema theater complex in Mexico, a \$13.5 million project to build a residential compound for the U.S. Embassy in Belize and a \$5 million project in Panama to expand Banco Uno's credit card portfolio.

The lack of information regarding OPIC's investment funds also makes it difficult to assess the development impact of these funds, other than OPIC's bald assertions on job creation and taxes. Indeed, the 2006 Development Report offers no specifics, but indicates only that the investment fund subprojects it monitored were in agribusiness, manufacturing, services, electronics and telecom somewhere in the world.

*Recommendations on Development*

- 1) OPIC should develop and utilize a development assessment tool that accurately reflects whether a project will in fact stimulate long-term, local development. The indicators now in use do not appear to be sufficient. OPIC should work with the international development community to devise a tool that will be a much better predictor of sustainable and equitable development than current tools.
- 2) Compliance with OPIC's conditions on development must be monitored closely by staff who enjoy adequate independence and have access to sufficient resources. The methods and results of this monitoring must be fully transparent to workers, affected communities and the public.
- 3) OPIC must be more transparent about how it calculates local job creation, especially with its investment funds. Currently, job creation numbers are no more than unsupported assertions. The lack of information about the quality of those jobs should also be addressed.

#### IV. TRANSPARENCY

On November 4, 2003, the House Committee on International Relations issued Report 108-339 on OPIC reauthorization. Among other things, it directed OPIC to undertake a transparency initiative in order to heighten transparency and information disclosure concerning OPIC projects and internal mechanisms. The report language called for interested stakeholders to play an active role in this process and to provide recommendations on how the transparency initiative should be used to strengthen OPIC's programs and policies. The report language stressed the goal of making reforms and process improvements with respect to issues such as accountability, transparency, environmental, social and worker rights protections.

In 2004–2005, labor organizations and NGOs met with OPIC on numerous occasions and provided extensive recommendations. NGOs found that these sessions helped them achieve a better understanding of OPIC's internal mechanisms. Finally, on September 21, 2006, OPIC launched an Anti-Corruption and Transparency Initiative. Although the new initiative does promise an advance in transparency, it falls far short of civil society demands. For example, environmental and development impact monitoring reports, which are key indicators of OPIC's beneficial or detrimental impacts, are not required to be disclosed. Also, it does not appear that OPIC has issued the regulations necessary to make its commitments under the Transparency Initiative permanent. Moreover, some of the information scheduled to be released under the Transparency Initiative remains unavailable.

*a. Labor and NGO Recommendations:*

On June 14, 2005, OPIC issued its draft Transparency Initiative Tracking Log, which recorded 48 areas where NGO and labor groups identified the need for improved transparency, information disclosure and strengthened programs, policies and practices.

Of all the recommendations, the agency agreed at the time to only three, including the posting of an OPIC Transparency Statement on the agency's website a publicly releasable Summary of Project Information; and the public release of some information on projects and subprojects of investment funds and other financial intermediaries. Copies of the Transparency Initiative Log and an NGO Evaluation of the Transparency Initiative, issued in January 2006, criticizing OPIC's failure to meaningfully improve upon its transparency, are attached hereto as Attachments A and B respectively.

The labor and NGO community made several, very specific demands for information or for improvement of information gathering tools, including:

- All clearance evaluations related to the environment, worker rights, human rights, and development impacts

- A project's annual self-monitoring reports on the environment, worker rights and human rights
- Site monitoring reports generated by staff or consultants related to the environment, worker rights and human rights
- Information on those projects rejected for environment, worker rights or domestic effects reasons
- Developmental Impact Profiles
- Three-year independent audits of all Category A projects
- Environmental Management and Monitoring Plans, Major Hazard Assessments and Environmental Remediation Plans for all projects, not just Category A
- Estimated trade balance and job impacts by project, not just annual summaries.

*b. The Transparency Initiative Factsheet:*

A September 2006 factsheet, entitled “OPIC Anti-Corruption & Transparency Initiative Factsheet,” which describes the new initiative, is now available on the OPIC website.<sup>15</sup> Compared to previous demands on access to information, the initiative is not ambitious. The factsheet sets forth eight commitments, from redesigning the website to posting a range of documents. A review of the OPIC website reveals that few these commitments actually have been met.

For example:

Commitment #2 states that OPIC will post on its website non-business confidential summaries of OPIC-supported projects. The projects approved by the Board of Directors will be posted immediately, while other project summaries will follow as templates and processes are established. A review of the website finds summaries of only three “model” projects from 2003, namely: Sweetwater Pakistan (political risk insurance to provide advanced soil treatment technology to farmers in Pakistan), AbC.R.O.(financing to open offices in Eastern Europe to conduct clinical trials for pharmaceutical companies seeking U.S. Food and Drug Administration (FDA) registration for their medicines), and NURCHA (a loan guaranty to help build homes for low-income families in South Africa).

The website also includes newsletters that occasionally review a model project or two in summary. The OPIC website also contains board resolutions on approved projects. However, those resolutions are limited only to the name of the project, the cost of the project, and a sentence on the purpose of the project. This information is far from what is promised at Point 2 of the Factsheet.

Commitments # 3, 4, 7 and 8 all relate to information concerning Category A Projects, which are the most environmentally sensitive projects. Among documents promised are Environmental Impact Assemssments, Environmental Managament and Monitoring Plans, Environmental Remediation Plans, auditor certifications for Category A projects, standards environmental and social coventants in Category A projects, and host country notifications for Category A projects. Little of this information is currently available on OPIC’s website. There is one EIA available, regarding the Tenke Fugurume Mining S.A.R.L Project. EIAs of any previous or currently operation projects are not online. Only one compliance report from OPIC’s Office of Accountability is available, which concerns BP’s withholding of information concerning the failed anti-corrosion coating of the controversial Baku-T’blisi-Ceyhan pipeline. However, no monitoring plans have been disclosed. Moreover, OPIC’s Transparency Initiative does not commit to disclosing developmental, environmental and worker rights monitoring reports, hence there is no way for the public or for Congress to know if project sponsor obligations contained in these monitoring plans have been met.

Of note, OPIC’s initiative promises no information with regard to worker rights—a key demand for the AFL-CIO. Although the 2006 OPIC Development Report contains summary information on worker rights in general, there is absolutely no project-specific information regarding worker rights on the website and apparently none forthcoming. Such information, including any initial assessments of worker rights at the country or project level, as well as any monitoring reports and complaints should be available on the website.

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<sup>15</sup> See OPIC website, at [http://www.opic.gov/about/Transparency/documents/transparency\\_factsheet0906.pdf](http://www.opic.gov/about/Transparency/documents/transparency_factsheet0906.pdf)

## CONCLUSION

Congress should use the OPIC reauthorization to enact significant reforms to ensure that each and every OPIC-supported project strengthens our trade balance, creates U.S. jobs, and contributes to sustainable and equitable development abroad. Investment in developing countries can support U.S. jobs and stimulate development, but there is no automatic relationship between FDI and these desirable outcomes. In fact, even as we have seen FDI increase in developing countries, we have seen at the same time slow global growth, economic instability and inequality persist or get worse. At the same time, employment in the manufacturing sector has dwindled. Unless mandates for OPIC are strengthened and transparent monitoring of compliance made a top priority, OPIC will only be reinforcing the worst trends in the global economy. As a public institution, it must instead set and enforce the highest standards for investors. Only then can it ensure that its projects are truly advancing the interests of workers and their families in the U.S. and around the world.

Mr. SHERMAN. I look forward to working with each of the two witnesses who have just testified, to design statutory language to try to enhance OPIC's performance in environment and labor matters. But please keep in mind that we have got to draft these standards perhaps only applicable to the \$50 million or \$100 million deals, because whatever you are talking about doing, which makes sense on a \$50 million or \$100 million deal, if we applied it to the small deals, would very much conflict with our effort to try to get OPIC to process small deals involving small business.

We will now hear from Mr. Gaffney on some of the national security concerns.

**STATEMENT OF MR. FRANK J. GAFFNEY, JR., PRESIDENT AND CEO, CENTER FOR SECURITY POLICY**

Mr. GAFFNEY. Good morning, Mr. Chairman. Thank you very much for allowing me to return. I was here last September before the subcommittee talking about the conflict we are in. I call it the "war for the free world" because I think that accurately describes the stakes and what in particular must impel our consideration of issues like that today; namely, our taxpayer-funded organizations and entities making, however unwittingly, moneys available to people who are trying to do us harm. And if so, what can we do to stop it?

As you know, Mr. Chairman, I have been active at the Center for Security Policy on an initiative that does not involve purely taxpayer money, though some taxpayer money is in question; namely, what we call "terror-free investing." It is laid out in greater length in my prepared statement which I hope will be made a part of the record. It involves of course, as you know, the problem that public pension funds, mutual funds, 401(k) plans, college endowments, college savings plans, and private portfolios are, unfortunately, to some extent exposed often without the knowledge of the beneficiaries in investments in publicly traded companies that are doing business with Iran, Syria, Sudan and North Korea, for example, state sponsors of terror according to the U.S. State Department.

We are very much of the view and very appreciative of the sympathy for this view that you have shared, that where we find such activities taking place, particularly with things like the Thrift Savings Plan, or, for that matter, State and local public pension funds, that efforts should be made to divest the stocks of these companies from the portfolio. This has become quite a prominent and successful effort with respect to one of the state sponsors of terror, the

Government of Sudan. But we think it ought to apply equally—especially in light of the growing dangers from Iran—to it; and, for that matter, to Syria and North Korea as well.

May I also mention something that is not in my prepared remarks, Mr. Chairman, which is an important point. And that is that in addition to states that are directly involved in the sponsorship of terror, some of the companies that we are dealing with are doing business with states that are also proliferating weapons of mass destruction. And I think both of these need to be focuses of our concerns today.

Let me turn to three other areas where I think taxpayer money may be involved in ways that warrants some reconsideration and corrective action.

One is, of course, the one you are here to speak about today, the Overseas Private Investment Corporation. As best I can tell, there are relatively small amounts of money involved in American companies that are directly doing business with state sponsors of terror or proliferating regimes. Any money, it seems to me, that is going into those areas is too much.

So whether it is publicly traded companies or whether it is private companies, or even individuals who are receiving OPIC guarantees or insurance programs, I think ought to be subjected to very close scrutiny and, wherever possible, those programs ought to be terminated. This is especially important because, as you know, Mr. Chairman, one of the efforts that we understand the United States Government is currently making is to try to discourage foreign governments from having counterpart programs to OPIC used to encourage companies like Total and E&I and ELF and Stod Oil and Siemens from going into places like Iran, very much to our detriment and, we think, to the detriment to the rest of the free world.

Quickly, let me just mention the Export-Import Bank, I think, is probably similarly a candidate for this kind of scrutiny. It is unclear to me how much money is being provided in the form of loans or loan guarantees. But my guess is that there is some, and that may also be the case, as I believe is true of OPIC, where foreign consortiums have enlisted American companies as participants. These ought to be subjected to the scrutiny of the Congress, I think, and preferably also of the executive branch.

Finally, Mr. Chairman, it is a little known fact but there are some 15,000 foreign suppliers to the U.S. Department of Defense. They provide everything from advanced military hardware and components to relatively prosaic materials and supplies. I have no idea what the precise value is, but I think it runs to the billions. May I just say it is a topic for another day to address whether it is strategically advisable to be as reliant as we are on foreign suppliers. But for this purpose, Mr. Chairman, I think there is another opportunity there to use the financial resources associated with Defense Department procurements as a means of exercising leverage. Companies that are doing business with the U.S. Defense Department should not also be doing business with our enemies. If we give them a choice, I have the feeling most of them would prefer to do business with us. And I think that is a choice we should encourage them to make.

Thank you very much for your time, sir.

[The prepared statement of Mr. Gaffney follows:]

PREPARED STATEMENT OF MR. FRANK J. GAFFNEY, JR., PRESIDENT AND CEO,  
CENTER FOR SECURITY POLICY

“THE FINANCIAL DIMENSIONS OF THE ‘WAR FOR THE FREE WORLD’”

Mr. Chairman, last September, I had the privilege of appearing before this distinguished Subcommittee to address the nature of the conflict in which we find ourselves and what it will take for us to prevail in it. I call that conflict the “War for the Free World” as I believe this moniker best describes the magnitude of the challenge confronting us and what is at stake—the Free World, itself—should we fail to meet the present danger, and those in prospect.

I am sorry to report that, in significant ways, this war has become more dangerous since my last appearance before you. And the risks associated with our failure have only grown concomitantly.

*Time for an Intensified Effort*

It behooves us, therefore, to be making a redoubled effort to counter our immediate enemies: adherents to a totalitarian ideology bent on world domination and the destruction of all who stand in the way of that goal. I believe they are best described as Islamofascists—a term that permits an important distinction to be made between such ideologues, who pursue political goals under the guise of a religion, from those hundreds of millions of Muslims the world over who are peaceably and tolerantly practicing their faith.

What makes these ideologues so dangerous is the fact that they are abetted in their often violent activities and political purposes by state-sponsors: notably, Iran, Syria, Sudan and North Korea. Fortunately, this vital relationship between rogue regimes and terrorist organizations—by which the former provide the latter with funding, safe-havens, logistical support, intelligence and other forms of material assistance and protection—also creates an opportunity for us: To use, among other instruments, financial weapons against the states that sponsor terrorism.

All of these instruments and how best to apply them are described at length in our book, *War Footing: Ten Steps America Must Take to Prevail in the War for the Free World* ([www.WarFooting.com](http://www.WarFooting.com)). For the present purpose, however, permit me to focus narrowly on ways in which *financial* means—over and above the existing sanctions currently imposed by the U.S. government—can be used to hurt our enemies.

*Terror-Free Investing*

As you know, Mr. Chairman, the Center for Security Policy has for several years now been urging institutional and private investors to engage in what we call “terror-free investing.” By assessing whether public pension funds, mutual funds, 401k plans, college savings programs, university endowments and personal portfolios are, generally unwittingly, investing in publicly traded companies that do business with terrorist-sponsoring regimes—and, if so, divesting such stocks—we believe a formidable force-multiplier can be brought to bear in the War for the Free World.

Thanks to our government’s sanctions on state-sponsors of terror, American companies (with very few exceptions) are not doing business directly with regimes so designated by the State Department. As a result, terror-free investing can bring pressure to bear on foreign-owned and -operated companies on what might otherwise be described as an “extraterritorial” basis. Such pressure can cause these companies to desist from working with, and thereby assisting, our foes.

I am pleased to report that several prominent firms—UBS, Credit Suisse and Daimler-Benz—have already taken this step with respect to Iran. A more comprehensive effort to encourage terror-free investing would likely prompt many other corporations to reach a similar conclusion: Corporate reputation, share value and profits are better served by doing business with America than with her enemies.

Toward this end, I believe that every effort should be made, at the federal as well as state and local levels, to raise awareness of this financial warfare opportunity and to encourage both government pension systems and the market to help with the war effort by facilitating terror-free investing. In that connection, I want in particular, to commend you, Mr. Chairman, for the support you have shown for this initiative—both in the hearing you recently held on the subject and in your legislative efforts. I very much hope that, for example, your idea of eliminating capital gains penalties associated with shifting funds from investment vehicles that include terrorist state-partnering companies to ones that do not will become law this year.

*Other Financial Warfare Opportunities*

I was asked today to explore other ways in which the U.S. government might further discourage businesses from providing what amounts to life-support to terrorist-sponsoring states, through their investments in and business dealings with rogue regimes. Let me quickly address three areas worthy of your consideration in that regard:

*The Overseas Private Investment Corporation (OPIC):* As you know, OPIC provides such assistance as financing and political risk insurance that enables companies and private equity funds to support infrastructure projects and other investments in developing countries. I understand that OPIC assistance has been provided to the relatively small number of American corporations—including, for example, General Electric—that do business (usually through foreign subsidiaries) in Iran and/or in other officially designated state-sponsors of terror.

OPIC is also involved in facilitating joint ventures and projects in which American firms participate as members of consortia with foreign corporations, even though such consortia may be engaged in business dealings with our enemies. It is hard to calculate the precise value to terrorist-sponsoring states of this sort of indirect U.S. assistance. Suffice it to say, though, that *any* taxpayer-enabled aid to the financial wherewithal of those trying to kill Americans is too much aid.

If, as I believe it should, Congress wants to maximize the pressure on the world's most dangerous governments—in particular, that of Iran—it should consider ways in which to constrict OPIC insurance and other assistance, whether direct or indirect, available to those doing business with such regimes. This is especially important insofar as the U.S. government has been seeking ways in which to encourage our allies to cut back their counterpart programs, which are enabling vast enterprises like Total, ENI, Elf, Statoil and Siemens to do extensive business with state-sponsors of terror.

*The Export-Import Bank:* A similar review is in order with respect to the lending and other export-facilitation programs of the Export-Import Bank. I would encourage the Subcommittee to evaluate Ex-Im's exposure in the form of loans or guarantees associated with ventures doing business in or with state-sponsors of terror. At a minimum, any involvement on the part of such ventures with Iran and other terrorist-sponsors should be taken into account when the funding decisions are being made by the Bank.

*Foreign Supplier Assessment:* A little-known fact is that there are today some 15,000 foreign suppliers to the Department of Defense. They provide everything from advanced military hardware and components to relatively prosaic materials and supplies. I do not have a precise estimate of the value of these transactions, but it seems safe to assume they run to the many billions of dollars.

A topic for another day is the strategic inadvisability of so great a reliance on such suppliers for products essential for our armed forces and their missions. For the present purpose, it is enough to note that at least *some* of these foreign suppliers to the Pentagon also provide valuable goods and services to Iran and/or other state-sponsors of terror. To my knowledge, until now, little attention has been paid to the extent to which financial pressure in the form of U.S. procurement decisions could be brought to bear on our adversaries by forcing such suppliers to choose between doing business with our Defense Department or with rogue states.

As it happens, there is a relatively small and largely unknown unit within the Defense Security Service (DSS), known as the Foreign Supplier Assessment Center (FSAC). FSAC is charged with evaluating the Pentagon's foreign suppliers in terms of their reliability, quality control, price competitiveness, etc. To date, however, this organization has not been charged with examining these suppliers' business ties to hostile governments.

I believe Congress should consider directing FSAC to create a screening mechanism that would bar foreign companies that do business, for example, in Iran from receiving Pentagon contracts. The mere prospect of such an exclusion, let alone its implementation, may well compel such companies to forego any future transactions in the country in question, rather than lose access to so important (both symbolically and financially) a U.S. customer.

Properly constructed, such an FSAC screen would have the corollary benefit of establishing a comprehensive data base for over 15,000 foreign companies, one that could monitor their activities in terrorist-sponsoring states (if any), their supply of dual-use equipment and technology to such states and profiles of their Iranian and other problematic business partners. It would likewise cue foreign companies to the importance of implementing a robust security-minded risk-management program to oversee projects and transactions in sensitive countries, something already embraced by some leading Japanese and European firms.

*Conclusion*

Mr. Chairman, let me close by repeating points I made to this Subcommittee nearly nine months ago:

We confront a complex, multifaceted and increasingly dangerous world. Islamofascists are on the march. They benefit from the state-sponsorship of oil-rich regimes that subscribe to one strain or another of this totalitarian ideology. Such wealth and the determination to destroy us that is a central purpose of our enemies makes it—all other things being equal—*just a matter of time* before their attacks on us and/or our allies are inflicted with weapons of mass destruction.

To make matters worse, governments that are not themselves Islamist (such as that of Vladimir Putin in Russia, the Communist Chinese, Kim Jong Il's regime in North Korea and Hugo Chavez's in Venezuela) are aiding and abetting the Islamofascists.

This combination of factors leaves us no choice but to get far more serious about this war than we have been to date. Serious in terms of the nature of the enemy. Serious in terms of what it will take to defeat it—from a vastly larger investment in our military to the mobilization of our people, resources and energies. And serious about adopting the policies and programs, including counter-ideological political warfare-related ones, necessary to ensure that we prevail in this War for the Free World.”

As I noted at the outset, a few things have changed since I made those remarks. Notably, the Congress is under new management. Another thing that has changed is the assessment of the imminence of the nuclear threat from Iran. For these reasons, I entreat this Subcommittee and the new leadership of the legislative branch to take to heart the assessment I have offered here—and last year—about the need to put our country on a “war footing” and the specific recommendations I have offered, both then and now, for doing so.

In particular, I hope these remarks will encourage you, Mr. Chairman, and your colleagues to bring to bear all instruments at our government’s disposal that could intensify the financial pressure on our enemies’ and, with luck, encourage an early end to the threat they pose to us and the rest of the Free World.

Mr. SHERMAN. Unfortunately unlike OPIC, neither EX-IM Bank nor the Defense Department comes under the jurisdiction of this subcommittee, but we are working on it.

Mr. Kane.

**STATEMENT OF TIM KANE, PH.D., DIRECTOR, CENTER FOR INTERNATIONAL TRADE AND ECONOMICS, THE HERITAGE FOUNDATION**

Mr. KANE. Thank you, sir.

Well, I would like to thank Chairman Lantos for the original invitation, also Chairman Sherman, Congressman Royce, and Congressman Scott, for your attention. I actually got the letter of invitation this morning. We had a few of phone calls last week, but I whipped this together.

My name is Tim Kane. I am the director for the Center for International Trade and Economics at The Heritage Foundation. The views I express in this testimony are my own and should not be considered as representing an official position of The Heritage Foundation.

While I find myself deeply supportive of the goals of OPIC, I am not confident that the organization is actually able to achieve them. You know, it is ironic; OPIC was created in the late 1960s because the original enterprise of government-to-government investing had been proven to be a failure, and in the decade since we have continued to learn which strategies fail to promote economic development. And there is a very dark cloud of failure over the entire en-

terprise of pushing investment into economies rather than having economies compete to pull in investment dollars.

And I think that is the premise here, Mr. Chairman. How can we help poor economies develop, advance, and in a way that helps promote prosperity here? Because if that is the premise, it really doesn't work, the premise that pushing investment causes growth.

Our project, the Annual Index of Economic Freedom—I brought along a hard copy here, it is available free online at [heritage.org/Index](http://heritage.org/Index)—our project has the same goal that OPIC does, which is promoting economic development by promoting economic freedom. But our approaches are quite different. OPIC wants to push investments into risky places by having the taxpayer offer risk insurance, whereas I want governments to make their economies competitive and attracting investments without any help from the U.S. taxpayer.

Growth economists—and I am talking broadly here among academics at Harvard, Yale, and the University of California-San Diego, UCLA, the leading researchers around the world, have understood there is a correlation between investment and growth. But we found that it is not that A leads to B, but B leads to A.

In an influential 1996 paper in the *Quarterly Journal of Economics* by Blomstrom, Lipsey and Zejan, we learned—and I am going to quote—"Economic growth proceeds capital formation, but no evidence that capital formation proceeds growth."

So if we wish to combat poverty around the world, our efforts must be geared toward helping those countries and encouraging those countries to build the institution to get them to grow initially and then lead investment from outside. I mean, this is certainly the example of Mainland China. We didn't push investments into Communist China in 1977 to 1978. They were formed initially, and now Wall Street is climbing all over itself to get in there and get a piece of the action.

This is really the model we need to think of when we are promoting economic development around the world. And it leads one to ask the question: What are those institutions of growth that have been so successful in places like China and elsewhere?

Now, we have long attempted to understand and even measure with our annual publication, this index, what those institutions are. There is a clear relationship between economic freedom and the 10 types of freedom that we measure and numerous other cross-country variables. There is a strong relationship between the level of freedom and the level of prosperity in terms of per capita, GDP, higher freedom. Even higher labor freedom means lower unemployment and lower inflation rates.

To be blunt, countries control their own fate. And it is almost impossible to "jump start"—to use Mr. Mosbacher's phrase—economic growth. In fact in the fifties and the sixties there was a philosophy in economics, the economics literature, that you could have a big push, get investments into a country. And it has been discredited. The big push, the jump start, these are well-meaning, but the philosophical foundations aren't real.

So the question to me is: Is OPIC necessary? It pains me to say that I don't think so, because I really value the intentions and the good hearts of the folks that have, frankly, devoted a lot of their

careers and working lives to this. But, as designed, I think it is clear that the organization is based on an outdated philosophical foundation.

A few points to wrap up. First, is OPIC really costless to the taxpayer? Having scrutinized some of the balance sheets for OPIC, my eyes are drawn to Statement of Income on page 41 of its Annual Report; and of the \$403 million in the 2006 revenues, half come from fees. But who is paying these fees? I assume the fees are paid by the U.S. Government, which means the taxpayer.

Second, if OPIC is a profitable enterprise and I am wrong, then maybe we should spin it off. Why shouldn't this be a private enterprise and not need reauthorization from this committee?

And third, the only merit I can really see for this would be if its investments are geared toward the promotion of economic freedom, which would really matter to help promote growth, particularly in places with strategic interest. When I look at the numbers \$200 million going to Russia, \$6 million this last year going to Iraq, \$1 million going to Afghanistan, this doesn't seem to be the right alignment of priorities; \$17 million to Vietnam or \$19 million to Vietnam. Is Vietnam that much more important than Iraq, three times more important for our national security strategy?

So I guess in asking these questions, I don't see how it marries up with the stated goals and, again, the stated premises of why the program exists. So there is more in the written testimony. I will try to draw to a close. But in light of all the evidence, my recommendation would be for Congress and this committee to consider a phaseout of OPIC.

I think just paraphrasing, Milton Friedman did the same thing. There doesn't seem to be a justification for the existence of OPIC. And that hasn't changed since Milton Friedman said those words years ago. Thank you.

[The prepared statement of Mr. Kane follows:]

PREPARED STATEMENT OF TIM KANE, PH.D., DIRECTOR, CENTER FOR INTERNATIONAL TRADE AND ECONOMICS, THE HERITAGE FOUNDATION

My name is Tim Kane. I am The Director of the Center for International Trade and Economics at The Heritage Foundation. The views I express in this testimony are my own, and should not be construed as representing any official position of The Heritage Foundation.

I greatly appreciate the invitation from Chairman Lantos for the opportunity to speak today on an issue of great interest and concern to me: how can Congress maximize the prosperity of the American people while simultaneously promoting economic development for people all around the world.

The particular question facing the Subcommittee today is whether or not to reauthorize the Overseas Private Investment Corporation (OPIC), presumably for another 4 years. Its mission, which I quote from the OPIC.GOV website is "The Overseas Private Investment Corporation's (OPIC) mission is to mobilize and facilitate the participation of United States private capital and skills in the economic and social development of less developed countries and areas, and countries in transition from nonmarket to market economies." Justifications for the OPIC mission is that in executing this investment mission, it increases U.S. exports and therefore increases the number of U.S. jobs.

While I find myself deeply supportive of the goals of OPIC, I am not confident that the organization is actually able to achieve them. Ironically, OPIC was created in the late 1960s because the traditional model of government to government funding of less developed economies was so clearly failing. In the decades since, we continue to learn what strategies fail to promote development, and there is a very dark cloud of failure over the entire enterprise of pushing investment of any kind into economies, rather than having economies compete to pull in investment dollars. Likewise,

the goals of job creation and export promotion seem very transparently minor aspects OPIC's mission, and there is no clear case that the exports and jobs associated with OPIC are not at the expense of efficiencies elsewhere.

I should probably confess that while preparing for this testimony, it dawned on me that OPIC is in a sense a competitor of mine. Our project, the annual INDEX OF ECONOMIC FREEDOM, has the same goal that OPIC does—which is economic development. But our approaches are quite different. OPIC wants to push investments into risky places by having the taxpayer offer risk insurance, whereas I want governments aboard to make their economies competitive first as a means to attract investment without any need for U.S. taxpayer assistance.

In a time of massive budget deficits and unabated federal spending, this would seem to be the perfect time to scrutinize the necessity of OPIC. Any time the Congress considers spending the money of the American citizen, it should set a very, very high bar.

This is the standard which I use to evaluate Congressional spending and authorizations. Indeed, my colleague at the Heritage Foundation, Dr. Edwin Feulner, provides a clear guidelines in the form of SIX QUESTIONS that every government action or policy should answer, which he describes in his book Getting America Right:

1. Is it the government's business?
2. Does it promote self-reliance?
3. Is it responsible? Specifically, who pays for it?
4. Does it make America more prosperous?
5. Does it make us safer?
6. Does it unify us?

OPIC should be able to make an airtight case in answering these questions.

#### HOW AMERICAN JOBS ARE CREATED

The notion that any government organization can "create" jobs is not based on credible economic foundations. The private sector creates jobs that last, whereas governments use taxed dollars to pay for temporary work. Sometimes that work, such as construction jobs that exist for a summer while a new road is laid, add value in the form of a public good. That is, the externality of the production of the job outweighs the cost of the worker's salary. But it is not the inherent employment of the individual that is of value. So the question is whether OPIC creates public value for the U.S. taxpayer? Is it investing abroad in some fashion that outweighs the fees that it charges to the U.S. government?

#### INVESTMENT IS A CONSEQUENCE NOT A CAUSE OF GROWTH

The instinctive understanding of economic growth leads us to believe that investment is a vital input because societies without investment are obviously stagnant. We tend to see a link between heavy levels of investment and economic growth. The appearance of cranes and tractors in a bustling city are evidence. And yet, this instinct is misguided. The question to ask is: why are the cranes and tractors here? Why in this city, not that city? Why this country, not the country?

Rather than ask this question, out humanitarian urge is to create new incentives to push investment into poor areas. But pushing inputs is almost always ineffective, which reminds us of the famous maxim "You cannot push a rope."

Growth economists have confirmed a strong correlation between investment and economic growth. However, the use of sophisticated time series econometrics has been used to confirm the causality of the relationship. We know now that investment does not cause growth, but vice versa. Countries that grow tend to attract investment. This was a view first proposed, one might say, by Adam Smith in the 18th century. It was articulated clearly in the modern era by Albert Hirschman (a professor at Yale, Columbia, Harvard, and the Institute for Advanced Study) in 1958. But current data have been able to confirm Hirschman point that growth causes investment, and the consensus of professional economists is now resolved.

In an influential 1996 paper in the Quarterly Journal of Economics by Blomstrom, Lipsey, and Zejan (February 1996 pages 269–273), we learn:

"[O]bserved long-term relationships were due more to the effect of growth on capital formation than to the effect of capital formation on growth"

"The main result persists when inter-country differences are eliminated: growth seems to precede capital formation"

"[I]nformal and formal tests using only fixed investment ratios as independent variables give evidence that economic growth precedes capital forma-

tion, but no evidence that capital formation precedes growth. Thus, the causality seems to run in only one direction, from economic growth the capital formation.”

These authors used a technique known as Granger causality, named after Nobel-prize recipient Clive Granger, who was also a professor of mine at UCSD in the late 1990s. I would urge the Congress to consider the serious implications of this research.

If we wish to combat poverty around the world, our efforts must be geared towards promoting the institutions of growth first, not by pushing investments, and certainly not by reducing the costs of bad risks.

This leads one to inquire about the nature of the “institutions of growth”—those policies and cultures that create the incentives for markets to form, for specialization to occur, and for development to accelerate. It should be needless to say that the fruits of economic development are born by private markets. Local and national governments cannot plant the seeds of prosperity, but they can create the climate for entrepreneurial seeds to prosper.

In my next section, I will describe further the “institutions of growth,” which we have long attempted to understand and even measure with our annual publication of the Heritage Foundation / Wall Street Journal *Index of Economic Freedom*.

#### ECONOMIC FREEDOM AND THE INSTITUTIONS OF GROWTH

With the publication of the 2007 edition, The Heritage Foundation/Wall Street Journal *Index of Economic Freedom* marked its 13th anniversary. It was also my first year as director and chief editor of the project. The idea of producing a user-friendly “index of economic freedom” as a tool for policymakers and investors was first discussed at The Heritage Foundation in the late 1980s. The goal then, as it is today, was to develop a systematic, empirical measurement of economic freedom in countries throughout the world. I should mention that we make all the material, country scores, and even raw data available for free on the Internet at [www.heritage.org/Index](http://www.heritage.org/Index).

Economic theory dating back to the publication of Adam Smith’s *The Wealth of Nations* in 1776 emphasizes the lesson that basic institutions that protect the liberty of individuals to pursue their own economic interests result in greater prosperity for the larger society. Modern scholars of political economy are rediscovering the centrality of “free institutions” as fundamental ingredients for rapid long-term growth. In other words, the techniques may be new, but they reaffirm classic truths. The objective of the *Index* is to catalog those economic institutions in a quantitative and rigorous manner.

The 2007 *Index of Economic Freedom* measures 157 countries across 10 specific factors of economic freedom, which are:

- Business Freedom
- Trade Freedom
- Fiscal Freedom
- Freedom from Government
- Monetary Freedom
- Investment Freedom
- Financial Freedom
- Property Rights
- Freedom from Corruption
- Labor Freedom

High scores approaching 100 represent higher levels of freedom. The higher the score on a factor, the lower the level of government interference in the economy.

The methodology for measuring economic freedom is significantly upgraded. The new methodology uses a scale of 0–100 rather than the 1–5 brackets of previous years when assessing the 10 component economic freedoms, which means that the new overall scores are more refined and therefore more accurate. Second, a new labor freedom factor has been added, and entrepreneurship is being emphasized in the business freedom factor. Both of these new categories are based on data that became available from the World Bank only after 2004.

The methodology has been vetted and endorsed by a new academic advisory board and should better reflect the details of each country’s economic policies. In order to compare country performances from past years accurately, scores and rankings for all previous years dating back to 1995 have been adjusted to reflect the new methodology.

Economic freedom is strongly related to good economic performance. The world’s freest countries have twice the average income of the second quintile of countries and over five times the average income of the fifth quintile of countries. The freest

economies also have lower rates of unemployment and lower inflation. These relationships hold across each quintile, meaning that every quintile of less free economies has worse average rates of inflation and unemployment than the preceding quintile has.

Progress is universal across all continents. Across the five regions, Europe is clearly the most free using an unweighted average (67.5 percent), followed at some distance by the Americas (62.3 percent). The other three regions fall below the world average: Asia-Pacific (59.1 percent), North Africa/Middle East (57.2 percent), and sub-Saharan Africa (54.7 percent). However, trends in freedom are mirrored closely across all regions. The main distinguishing feature of the regions is that Asia-Pacific countries have the highest variance, which means that there is a much wider gap between the heights of freedom in some economies and the lows in others that is nearly twice as variable as the norm.

Of the 157 countries graded numerically in the 2007 *Index*, only seven have very high freedom scores of 80 percent or more, making them what we categorize as “free” economies. Another 23 are in the 70 percent range, placing them in the “mostly free” category. This means that less than one-fifth of all countries have economic freedom scores higher than 70 percent. The bulk of countries—107 economies—have freedom scores of 50 percent–70 percent. Half are “somewhat free” (scores of 60 percent–70 percent), and half are “mostly unfree” (scores of 50 percent–60 percent). Only 20 countries have “repressed economies” with scores below 50 percent.

The typical country has an economy that is 60.6 percent free, down slightly from 60.9 percent in 2006. These are the highest scores ever recorded in the *Index*, so the overall trend continues to be positive. Among specific economies during the past year, the scores of 65 countries are now higher, and the scores of 92 countries are worse.

The variation in freedom among all of these countries declined again for the sixth year in a row, and the standard deviation among scores now stands at 11.4, down one-tenth of a percentage point from last year and down two full points since 1996.

There is a clear relationship between economic freedom and numerous other cross-country variables, the most prominent being the strong relationship between the level of freedom and the level of prosperity in a given country. Previous editions of the *Index* have confirmed the tangible benefits of living in freer societies. Not only is a higher level of economic freedom clearly associated with a higher level of per capita gross domestic product, but those higher GDP growth rates seem to create a virtuous cycle, triggering further improvements in economic freedom. *This can most clearly be understood with the observation that a ten point increase in economic freedom corresponds to a doubling of income per capita.*

The reason that I am devoting so much of my testimony to the topic of economic freedom is because I hope to impress the centrality of internally generated policy change as the key to development. To be blunt, countries control their own fate, and it is almost always impossible for external forces to “jump start”—to use Mr. Mosbacher’s phrase—economic growth.

#### IS OPIC NECESSARY?

I do not believe the testimony of Mr. Mosbacher’s provides a justification to reauthorize OPIC. It pains me to say that, because I share the objectives of the good people who work at OPIC. But as designed, I think it is clear that the organization is based on an outdated economic philosophical foundation. I would like to make a number of minor points.

First, is OPIC really costless to the taxpayer? It claims to be a net economic gain for the U.S., in the sense that it is generating revenue. But how does it generate income? Having scrutinized some of the balance sheets for OPIC, my eyes are drawn to Statement of Income on page 41 of its annual report. Of 403 million USD in 2006 revenues, nearly half come from fees. But who is paying those fees? I may be wrong, but I assume those fees are paid by the U.S. government for services rendered. Perhaps this would be a fruitful line of inquiry of the subcommittee to pursue.

Second, if OPIC is a profitable enterprise, then why does it need re-authorization from the Congress? In that case, I would recommend the Congress sell it off and take the proceeds of that “IPO” to pay down the deficit, while letting OPIC continue its mission as a private entity. If instead, the accounting numbers show that on net OPIC is not truly profitable, but that its costs are creating some public good that is worth it, then we can at least have an honest discussion.

Third, the only merit I can see for the existence of OPIC would be if its investments were geared towards promotion of economic freedom, particularly in places of strategic interest for U.S. foreign policy. What I would hope is that OPIC would not be reinforcing nations that are economically unfree.

Again turning to OPIC's annual report, I was surprised to see how little OPIC money has been geared towards the economic development of Iraq. Compare the \$200 million being spent on Russia by OPIC to the \$6 million spent on Iraq. Barely one million USD was spent on Afghanistan. The mismatch of funds to national priorities is astounding. In contrast, \$19 million was spent on projects in Vietnam. But why Vietnam? Yes, they are a vital partner for the U.S., but they are also one of the hottest economies in all of Asia, and a hotbed for private market investments.

Let's face it, if your global mutual fund isn't allocating some dollars into Vietnam, you should be upset. Why then, does the U.S. taxpayer need to spend its precious strategic dollars in Vietnam instead of Afghanistan. Is economic development in Afghanistan only 6 percent as important as Vietnam? Is economic progress in Iraq only one third as important as Vietnam?

To be fair, and in order to provide some intellectual rigor to this inquiry, let's consider a broader view. In preparation for today's hearing, I assembled the data on OPIC's recent investments into various countries and compared it to the economic freedom scores those countries received in our *2007 Index of Economic Freedom*.

There are 39 countries that received OPIC finance or insurance that also received a score in our *Index*. Keep in mind that a score below 50 percent is considered a repressed economy. The average score worldwide in 2007 was 60.6 percent. What I found was that the average freedom score of countries receiving OPIC funds was 58 percent. Further, I calculate a weighted average so that countries with higher funding levels are counted proportionally more; the weighted average freedom score of countries receiving OPIC funds was 59 percent. Frankly, this is an encouraging finding, as it shows that very few OPIC dollars are supporting investments in unfree economies. In fact, more than half of OPIC dollars are spent in support of investments in what the Heritage Foundation categorizes as free economies.

As my earlier points must reveal, this finding does not lead me to conclude that OPIC should be re-authorized, but it is somewhat heartening.

Realistically, I have come to accept the maxim of Ronald Reagan that once a government program is created, it is practically immortal. But I do feel strongly that OPIC should be revised, with a cap on the fees that it can charge to the U.S. taxpayer—and I would suggest cutting these in half.

In light of all the evidence, however, my recommendation would be that Congress explore a phase-out of OPIC. Its operations are duplicative of the private sector, generally, and the funding of activities of high value for U.S. foreign policy are clearly not a priority in light of the levels of funding towards Iraq and Afghanistan. It is difficult for me to understand why then the organization exists, which is what the great Milton Friedman cautioned years ago.

Thank you.

**Mr. SHERMAN.** Mr. Kane, I have a few questions I hope you will just respond to the record because I have limited time. I hope you will go back to Heritage and get them to submit to us which taxes The Heritage Foundation officially wants us to raise in order to replace the revenue that OPIC contributes to the Treasury.

Second, your comment that we read a document and it says fees, and then you assume that that is taxpayer money is somewhat confusing to me. But I will trace it out.

And, finally, I hope that Heritage would bring to this committee or to OPIC, private sector investors who want to invest in Iraq because, obviously, OPIC can't guarantee an investment that nobody wants to make. And OPIC hasn't found anybody who wants to invest—hasn't found many people who want to invest in Iraq. Neither has the administration. So I am counting on Heritage to find companies that want to do that.

The question I would have for you to respond to orally is, you put forward the theory that OPIC never encouraged investment in China. It didn't in the eighties and nineties—or at least the eighties—and now China has a vibrant economy. So absence of OPIC leads to better economic results.

OPIC also during the eighties and nineties, and even to today, hasn't financed any investments or guaranteed them in Cuba, Iran, and Syria. So has lack of OPIC investment contributed to signifi-

cant economic improvements or economic structural improvements in those countries?

Mr. KANE. Sir, thank you for the attention on that. I think it is pretty amazing to imagine that OPIC would be considered in any way responsible for the development in China. I mean, the reforms that were initiated—

Mr. SHERMAN. You are saying just the opposite. You were kind of saying the absence of OPIC helped China. And I am raising the point: Well, then, how has the absence of OPIC helped Iran, Syria, and Cuba?

Mr. KANE. Well, I think if we are saying that OPIC is irrelevant to growth in any of these countries, I guess we are in agreement.

Mr. SHERMAN. I am not saying that at all. I am just saying the absence of OPIC does not seem to stir—cause bad regimes with bad economic policies to see, well, we won't get foreign investment if we don't improve; therefore we are going to implement open economic policies.

Mr. Vogt, are you arguing for a focus on country disqualification where we say a particular country is failing via labor standards or a project-by-project review, or a combination of both?

Mr. VOGT. I think it is both. Again, we would take issue with the statute to the extent that it calls for countries to be, you know, taking steps. Taking steps has always been—

Mr. SHERMAN. What is the best way to draft it? Because we have got two problems. One is we cannot guarantee that we will always have a President administering the laws that is as dedicated to labor rights as we would like, although I think OPIC probably is more dedicated to labor rights than half a dozen other administration-controlled organizations that I could name.

The second problem we have is do we want to double-punish the—the argument is made that you don't want to double-punish the workers of a particular country by saying your government won't protect you, your corporations are shafting you, and therefore the United States is not going to help the development of your economy.

What is the best way to deal with a—what is best for workers who find themselves in these unfortunate countries?

Mr. VOGT. I mean, obviously, we believe that one way to help a broad-based development is to ensure that worker rights are actually in law and there is compliance with those laws, that the government enforces those laws, d that the corporations that are employing these workers also respect those laws.

In another context, we are pushing heavily on governments who do comply with the commitments they have already made to the International Labor Organization, the declaration of fundamental principles and rights of work. In our new trade policy we are asking governments to adopt, maintain, and enforce ILO standards. But I think part of this could also be helped by more vigorous monitoring of labor rights.

Part of this is greater transparency and allowing the workers in the international community be able to ensure that corporations are actually following the law, that the governments are enforcing those laws, and that the monitoring mechanisms that are currently

in place are a little more than a checklist that a company has to fill out every year.

You know, for example, union or strike. It tells you nothing about the conditions on the ground. And if there is a random selection of monitoring by OPIC within a 3-year cycle to focus in on a company, it could be 3, 4, years after there has been a significant violation on the ground.

Mr. SHERMAN. I look forward with you to drafting a statute that tries to achieve these objectives. And I hope that you will work with the AFL and other labor unions and others concerned with worker rights to help us do that and to be able to balance these issues of trying to help the worker on the one hand and discourage the countries that fail to accommodate workers on the other.

Mr. Royce? I think what I will do is I will call on Mr. Royce, and then I will do a second round and ask all these other pending questions.

Mr. ROYCE. Thank you, Mr. Chairman. I will just begin by referring to one of Dr. Kane's comments about The Heritage Foundation's Index of Economic Freedom that attempts to quantify just what those factors are, and just to acknowledge that we have a staff member with the committee here, Mr. Tom Sheehey, who was the originator when he was at Heritage of the Index that is now published by the *Wall Street Journal* and Heritage that attempts to quantify those factors by country around the globe.

I wanted to go first to Mr. Gaffney for some concerns he raised about European export subsidies for trade with Iran, and he knows I share his concern.

In my opening statement I made the point that export promotion in foreign investment agencies distort markets when those very markets would otherwise aid our efforts against Iran. In other words, the market works, businesses are pulled out of Iran, all of the banks worldwide have pulled out of Iran. Unfortunately, we may very well face other situations like Iran.

And my question is: Wouldn't we be better off to start the dialogue, to scale back and even eliminate these subsidy agencies for many reasons, but increasingly for security reasons? The very reason to be, for agencies that issue political risk insurance, after all, is to go into countries where risk is perceived as high, including Iran. Aren't we just asking for trouble by having such agencies in existence? It is sort of a slippery slope. And as long as we play the game, even if we aren't in Iran, so too will the Europeans.

On the other hand, if we worked in the WTO with the Europeans, just as we have discussed in the past, trying to work on getting rid of these agricultural subsidies, if we worked on getting rid of these trade subsidies, would we have the nonsensical situation today where Italy and Germany and France have such a huge export subsidy working with Iran, propping that regime up? It makes absolutely no sense for the taxpayers of Europe to accept this risk. And yet politically somehow, it makes sense because these agencies end up picking winners and losers in the game of economics, something that the market should be doing.

Mr. Gaffney, let me ask you about that concept.

Mr. GAFFNEY. Mr. Royce, I am not sure that I am expert enough in this subject matter to give you a terribly informed answer. I will

give you my subjective view, and that is that you are going to find an argument for risk minimization or risk coverage in places other than state sponsors of terror and proliferating regimes. And I think the question more properly is not should we try to rip all these things up by their roots because, frankly, I don't think that is going to happen either here or there, but I do think that a concerted effort that is aimed at trying to ensure that when any of these governments has reason to believe that there is a serious threat emanating from these countries—and the word I used at the beginning of my remarks about this being the "war for the free world" is intended in part to underscore the fact that we are all in this. Europe is no more safe from these guys than we are. If anything, its situation is more powerless.

But I guess what I would say to you, sir, we will probably have to contend with the fact that these instruments, market distorting if you wish, are going to continue to operate. But both by virtue of our example, and through this other technique that I suggested at the outset, namely, using investors' ability to shape corporate behavior, not just governments, as a mechanism for trying to discourage people from doing business with these regimes that are trying to destroy us.

Mr. ROYCE. Yes. Well I think the idea of dealing with this comprehensively and using the power of the market through investors—but it is all the more worthwhile to pursue given OPIC's dubious results. I think this forum gives us an opportunity to look at whether or not there is, in pushing these concepts, a real downside risk.

And I want to go now to Mr. Kane. In your testimony you say there is a very dark cloud of failure over the entire enterprise of pushing investment of any kind into economies rather than having economies compete to pull in investment dollars.

I want to give you a chance to elaborate on that point.

Mr. KANE. Thank you, sir. Well, this is something that is a well-established principle now among academic economists. It is a point I want to try to make. We need to get to that premise where there is a great area for us to offer advice. But I think pushing investments and actually lowering risk thresholds gets the wrong incentives out there for investors. We want companies and investors in the states to be focusing their money in places that aren't risky and reward those countries that aren't risky, that are making more reforms, establishing the rule of law, and the lack of corruption.

And I am afraid that when you mess up what those risk factors are, you get moneys going in the wrong way and you create huge inefficiencies. You get the rewards going to the wrong governments basically. So I think it is not just unproductive, it is counter-productive, this notion of the OPIC mission.

Mr. ROYCE. I thank you, Dr. Kane.

Mr. SHERMAN. Now we will move on to our vice chairman.

Mr. SCOTT. Thank you. Thank you, Mr. Chairman. Let's discuss a little bit about jobs and labor rights and those sorts of issues.

Almost half of OPIC's work is done in the banking, finance, and service area where we don't traditionally think of jobs leaving the United States, like in manufacturing, agribusiness. And additionally, most of OPIC's investments have been in Latin America, East-

ern Europe, areas where a section of ag-related jobs in Latin America—that we don't usually think of American jobs going; i.e., Southeast Asia.

So my first question is: In the opinion of each of you on the panel, what negative effect has OPIC's work had on U.S. jobs, loss of U.S. jobs, creation of U.S. jobs? Mr. Vogt?

Mr. VOGT. The major concern I have, OPIC asserts that there has been zero negative impact on U.S. jobs. That may be correct. Maybe it isn't. But there is insufficient information or transparency to be able to evaluate its assertions, particularly when we are looking at these investment funds and structure finance, we have—we know that Wachovia is getting a certain amount of money or AIC Peruvian Fund is getting a certain amount of money, but we have no idea of where that is going downstream and what those will fund, whether those have—whether those will have or support industries that may compete with the United States or not.

So I think our primary concern is knowing how OPIC really calculates both its job creation and makes assertions on job loss and to have a better sense of where these downstream investments are made so we can better assess what impact it may have on the United States.

Mr. SCOTT. Okay. Dr. Kane?

Mr. KANE. Yes, sir, thank you.

I think my first answer is, I doubt there is much impact on U.S. jobs, really. And the notion that jobs are lost somehow through this enterprise, I don't really see that logically work out. But I think there is another way to think about it, which is when California does well economically or Illinois does well economically, it is actually good for Virginia. Likewise when other countries prosper, I think that is a real win-win. So I have had a lot of doubts about, say, the debates over outsourcing, loss of manufacturing jobs. Most economists do. When you have an unemployment rate that continues to go down in response to partially cutting taxes, I think we have really understand how jobs get created in the States.

But we would like to see, of course, those countries that are going to prosper, prosper, and not have moneys channeled to countries that don't have the right institutions in place. So I think there is an indirect effect where OPIC could be counterproductive to U.S. employment, U.S. prosperity, in the long haul.

Mr. SCOTT. Let me take that just a little bit further, then.

There doesn't seem to me to—doesn't appear to be some concern about OPIC's impact on the loss of U.S. jobs. Is OPIC required to withhold its services if it believes overseas investment may hurt U.S. jobs?

Mr. KANE. Just responding to the testimony earlier sir, they say that is part of their operating procedures, yes. But I am not speaking on behalf of OPIC. That is how I understand their mandate.

Mr. SCOTT. Okay. Mr. Vogt, is that your understanding?

Mr. VOGT. Yes. That is, I believe, what the statute says.

Mr. SCOTT. Do you by chance know what OPIC would use to determine this? They are not here. Maybe I should ask them that question. But it leads to the question, I mean even if they are not, certainly this issue of impact of loss of jobs, U.S. jobs, is certainly an important question. But I don't know if any of you would know

if there is a method for them to use for determining at what point they would stop their services going. What would be that indicator? What would be that red flag to say, "Uh-oh, we had better not do this because it is going to cause a loss of jobs"?

Mr. VOGT. Yes. I mentioned that in the formal testimony. We don't have that methodology. Other than the assertions that are in their reports, I don't know how jobs are—how they calculate job creation other than estimates based on procurement or job losses.

Mr. SCOTT. All right. Okay. Let me ask you about another concern that I have. And that is, the concern about the violation of basic labor rights in countries in which OPIC has projects. Countries like Jordan where you have two things; you have investments and you have some violation of labor rights. Indonesia, for example, Colombia, Egypt, Philippines, Nicaragua, Pakistan. Is there a mechanism—does OPIC have a mechanism to guarantee that partner companies are indeed respecting core internationally recognized labor rights?

Mr. VOGT. Well, my understanding is initially there is a screening of the project. I think the larger projects you will get, obviously, will get a more rigorous review. And if a project goes forward, then they incorporate in the contract with that project a promise that they will—they must agree not to take actions to prevent workers to exercise their right of freedom to association, the right to organize and bargain collectively and an obligation to meet local legal standards on child labor and acceptable conditions of work. And my understanding from the reports is that in some cases they put additional language in the reports that they meet beyond local labor standards on child labor and conditions of work.

The problem, I think, is in the rigor of the initial assessments of whether the company has a proven record of upholding or violating laws; and then, on the post-project implementation, what kind of monitoring is done and to what extent stakeholders have the ability to participate meaningfully in the monitoring of these projects given the limited information that is available publicly.

Mr. SCOTT. Do you know if there are any—or what happens if there are violations? Does OPIC have any penalties, any penalties to apply in the event of violations? Mr. Sohn?

Mr. SOHN. By statute they are not supposed to support projects that violate core labor standards. And so if you had conditions placed in a contract that were violated, they would have the right to terminate that contract.

Mr. SCOTT. Okay. Well, I see my time has expired, Mr. Sherman. I don't want to be greedy.

Mr. SHERMAN. Just responding to Mr. Kane's comment, the American worker is the hardest-working, most diligent, and most flexible in the world. When our economy does well, that is where the credit goes. And it is incredible hubris for the chattering classes, we politicians, economists, business executives, to claim credit for what is done by their sweat and their toil.

At the same time, we have a major problem in our country, and that is the increasing disparity of income, low wages for American workers, and here the real blame does go to the chattering classes, the corporate executives, the trade, corporate and tax policies that these chattering classes have adopted.

If America is great, it is the workers in the factories and the fields. It is not anybody here in this room that is responsible for that. Mr. Gaffney, we have—well, I guess it is the problem that ancient rabbis faced. You are not supposed to mix milk and meat so they raised the question: What happens if a drop of milk falls into a vat of beef broth?

We have a certain amount of economic power. We could decide that we were going to have sanctions against everybody who ever said anything nice about Iran, or anybody who is a citizen of a country that has ever said, you know—and at some point you have got sanctions on everybody and your limited power is diffuse.

On the other hand, there is a possibility that we target so narrowly that we don't have an effect. Up until now, the most significant law we have passed—and I am using Iran as an example, but these same principles are going to apply to Sudan and North Korea, somewhat differently because they have different economies—but with Iran and previously with Libya, we focused on the oil sector, and we said the only significant sanctions we really have on Iran now are designed to prevent investment in their oil sector.

I am looking at two things: Oil sector investment and loans to the government. What evil-doing do we wish to discourage international corporate enterprises from engaging in? Do we want to hit the ones that are engaged in importing Iranian carpets? And if so, how do we square that with the fact that the United States has opened our markets to Iranian carpets? Do we want to nail those that buy oil? We don't do that—you know right now American law does not do that.

How do we use our leverage to change international corporate behavior to aim at the most vulnerable points of the Iranian economy? And would a focus on investment in the oil sector and loans to the government be the target?

Mr. GAFFNEY. I would defer to you on matters of Talmudic scholarship, Mr. Chairman. I am not sure where we as a country would draw these lines. They are very subjective, let's face it. I will give you my thought. I believe that there are something on the order of 450 publicly traded companies that do business with state sponsors of terror. I think there may be 300 and change who are doing it with Iran.

Mr. SHERMAN. But what is the definition of doing business with a state sponsor of terror?

Mr. GAFFNEY. That number—

Mr. SHERMAN. If somebody is engaged in importing tins of Iranian caviar, does that count? Or does it count only if the Iranian Government is involved?

Mr. GAFFNEY. The number that I am referring to has been provided to me and others by a private venture called Conflict Securities Advisory Group who you heard testimony from.

Mr. SHERMAN. They are the folks that say they have the list, and if we give them hundreds of thousands of dollars—

Mr. GAFFNEY. I am told there are four competitors in this marketplace.

Mr. SHERMAN. I look forward to different concepts driving down the price.

Mr. GAFFNEY. They may well.

Mr. SHERMAN. But what we need to know here is not how many are on the secret list or the published list, but what criteria should we use to create our own list.

Mr. GAFFNEY. Let me try to respond by simply giving you insights that I have derived from my conversations with people who have been doing this. I believe that those numbers are generated not from everyone who has had anything to do, particularly in humanitarian medicine, foodstuffs, I guess carpets and the like; but, rather, people who are involved in one fashion or another with strategic trade with the Government of Iran or entities it controls.

The most important of those are in the sectors you have described, no question about it: the energy sector and the financial services sector. But I think there are others that are also important that are left out of those two categories. For example, telecommunications; dual-use technologies; heavy industry manufacturing; and perhaps others that may deal with transportation and things that could be bearing on dual-use functions, like the military's needs as well.

As I said, these are somewhat subjective judgments. My feeling is that we would be better off bringing maximum pressure to bear on the largest number of these strategic enterprises rather than a smaller subset, even if it is the most important of them. Because after all, as you have appreciated so well, I think, from your previous comments on the subject, Mr. Chairman, we are interested in affecting the cash flow of the Government of Iran and governments like it. We are interested in making it more difficult for them to garner the kind of life support that props up these regimes and that gives them the fungible capital with which to go do things like building nuclear weapons, buying or building ballistic missiles, and supporting terror.

So mark me down as closer to "a pretty rich broth can accommodate a certain amount of milk."

Mr. SHERMAN. Thank you for your comments. And now I will turn to Mr. Sohn—oh, wait I am in overtime. I will turn to Mr. Royce.

Mr. ROYCE. Thank you very much, Mr. Chairman. In discussing Iran, I think it is interesting to note that Iran is a country with enough internal problems today that they do not have the capital to build the refineries necessary for their gasoline. So they import 42 percent of their gasoline. They are a country in which the international market in which economies, the market economy works to the extent that the foreign banks are pulling out. And, of course, the Iranians use euros and dollars and yens, and with the loss of these banks they lose the ability to keep their economy afloat. And with that, what has happened has been that hyperinflation has been the increases on unemployment. It is the unrest of the younger class of citizens in Iran in the capital who go to the streets and who are increasingly restless.

But what manages to interject euros into this destabilized situation and keep this regime on life support at a time when 50 prominent Iranians have written an open letter to President Ahmadinejad to say these policies are absolutely collapsing this society? The answer to that is European export subsidies for trade with Iran. That is one of the areas, one of the avenues in which

the dollars come in, the euros come in to keep this thing on life support.

And for me, one of the great frustrations is the fact that you have got two factors in an economy. You have got the factors of the market. But then when you have government intervention, you have political pull replacing market factors. Here in Iran, the market actually works in terms of driving out that bad investment. But the thing that props up that regime is the government intervention in the market, which comes in the way of European export subsidies for trade, or it comes in the way of the old Russian institutions that invest in Iran. These are not market-driven mechanisms. And the point I am trying to make is, to the extent that we move away from a failed concept and move toward embracing markets, we also embrace factors which engender reform around the world.

In other words, if in a given country ruled by despotism everybody realizes there is no foreign investment, because of the political risk it doesn't come in, and therefore those regimes have to make changes to the way in which they are run; isn't that a better system than one where someone can put a penny in the fuse box, basically, and it short circuits the system and instead come in with that guaranteed political risk insurance, bring the investment in from overseas underwritten, by the way, by taxpayers overseas and prop up a regime that otherwise would have to turn to its people and say, all right, I guess we are going to have to allow private property here in Vietnam or whatever the country is? I guess we are going to have to move toward the rule of law, I suppose. We are going to have to set up independent courts with independent judges, because otherwise we are not going to have any economic activity. No, the problem is to me when government continues down this path of being involved in economic activity, instead of allowing the markets to function properly, we compound a problem. And I would just throw that out there. And perhaps, Dr. Kane, you would want to give me your thoughts on that.

Mr. KANE. I do, sir. Thank you. And I want to agree also with Chairman Sherman. Your point earlier that so much of the prosperity here, all of the prosperity goes to the people, the American people that are doing the work. That is true in every country. And also let me make a nod to Tom Sheehy, his inspiration with The Heritage, *Wall Street Journal Index of Economic Freedom*. Back in 1995, they crafted 10 different freedoms to be measured across the world, property rights being one. Those haven't changed. So the methodology has become more scientific. We have got better data. So this isn't a question of your opinion, Mr. Royce, any more. The facts are there, those countries that have stronger property rights are the ones that grow faster, are the ones that draw in foreign investment. So we know this is a solution that works. We know that those countries that have more economic freedom—and I would come back to this question of ILO standards—the countries that have more economic freedom in terms of labor rights, meaning they have fewer restrictions and "protections" for their workers, end up having higher incomes and lower unemployment rates. Hong Kong is a great example. The freest economy in the world year after year that we have done this. They don't have a minimum wage. And yet their wages for their average worker there are about \$30,000; com-

parable to here in the U.S., where it is about \$35,000 per person. They have really blazed a path that has been inspirational to China itself; that it is property rights, that it is freedom that creates prosperity.

Mr. GAFFNEY. Mr. Royce, may I just make an additional point? You, I am sure, did not mean to leave out China in the litany of countries that are intervening to prop up the Iranian regime.

Mr. ROYCE. Good point.

Mr. GAFFNEY. And one of the considerations that I would have, and I don't feel terribly strongly about it, whether there is an OPIC or there isn't an OPIC, but I do think that we shouldn't be under any illusion that some of the countries that we are dealing with now, notably Russia and China, are into Iran for strategic reasons pure and simple. And to some extent, the Europeans justify what they are doing for their own strategic interests, too, though I think they are misconstruing them. But the Chinese and the Russians are two of the governments that I think we are going to have to exercise persuasion on through means other than trying to show them by example how we would let the market work.

Mr. ROYCE. Well put.

Mr. SHERMAN. One more round. First, I do want to comment that the EX-IM Bank is a little bit more analogous than OPIC is to what the Europeans are doing. They are mercantilists. They are trying to sell their products. And anything we could do to tone down both the European interference in free market competition on the one hand and European propping up of the Iranian Government on the other one would be valuable if we had some reason to think that abolishing OPIC would also abolish some of these European organizations. While I have got friends at OPIC, but I would have to listen, unfortunately what we do with OPIC is probably not going to change European policy.

Mr. SOHN, I know there is a lawsuit right now against OPIC and EX-IM Bank, trying to get them to publish environmental reports about how they are promoting the use of fossil fuels and the effect that that would have on global warming. I mean, it is obvious that all of us who use fossil fuels are contributing to global warming. What would be a, from a public policy standpoint, instead of waiting for the courts to deal with it, what could we simply put in OPIC's statute to get OPIC to do something? Do we really need another report saying that burning fossil fuels contributes to global warming, or is there some other purpose behind that suit? I mean, putting aside the legalities, what are we trying to accomplish?

Mr. SOHN. Thank you for the question. Well, first of all, my organization is not involved in this lawsuit. But I think the things that we are suggesting here in my testimony are meaningful actions that can actually lead to less reliance on fossil fuels and help emerging economies that want to shift toward cleaner energy achieve that. And so—

Mr. SHERMAN. Now when you say cleaner energy, are you including nuclear, or not, or kind of agnostic on that?

Mr. SOHN. My understanding is OPIC doesn't support nuclear energy projects. I am not sure if that is by statute or by practice, but that is my understanding of their policy.

Mr. SHERMAN. Would we want them to?

Mr. SOHN. I think that there are a lot of significant risks with nuclear energy and up-front capital costs that would probably make it prohibitive for OPIC to venture down that road.

But in terms of what makes sense in terms of good public policy, I think it is important to look at what a number of different approaches are out there that are very holistic approaches. If you look at the private sector banks, they are setting ambitious targets for clean, renewable energy. Citigroup has set a target of \$50 billion over 10 years. Bank of America has a \$20 billion target over 10 years. And both of those institutions are also looking to lower emissions in their own lending portfolios simultaneously.

Mr. SHERMAN. If I can interrupt, everyone believes in clean, renewable energy, and then you look at particular projects. Nuclear, clearly problematic. Wind farms, being attacked by environmentalists in each location that they appear, but everyone supports the concept. Hydroelectric, obviously problematic. The new technologies are not really OPIC. OPIC can't finance them at this point. What kinds of projects could OPIC finance that do not pose environmental problems?

Mr. SOHN. I know OPIC looks to guidance on environmental issues to some extent from the World Bank group. And they set a target of 20 percent increases in their lending portfolio for what they called new renewable energy, which is lower impact hydro, under certain megawatts; it is geothermal energy; it is wind projects. And I would say, on wind projects, on a case-by-case basis, you have to look at the Environmental Impact Assessments of a wind project, just like you have to for any other type of infrastructure project. And energy efficiency is another area.

Mr. SHERMAN. Energy efficiency is a focus. And one thing we haven't mentioned at these hearings up until now is OPIC's very significant involvement that I am told in housing around the world. And I hope you will give us some guidance—and we are talking about providing housing to poor people who otherwise are living in shanties, so we can't necessarily plan for, you know, the kinds of things you would want in an American house—but some guidance from you and others on how the housing enterprises of OPIC could relate to energy efficiency would be important.

Mr. SOHN. Absolutely. We would be happy to do that. And just a few other examples of things that could be done in legislation, currently OPIC's legislation prohibits certain types of financing for oil industries. And you could look at extending the provisions of the Foreign Assistance Act to other forms of oil extraction or pipelines or what have you. That is another option. Another option is to look at the power portfolio, as the World Bank has committed to do, and begin to reduce the emissions in the power lending portfolio. So I think there is a whole number—

Mr. SHERMAN. If I can interrupt—

Mr. SOHN. Sure.

Mr. SHERMAN. Sometimes when you don't have oil, I mean what is happening in the world here is we don't have as much oil as people want to burn.

Mr. SOHN. Right.

Mr. SHERMAN. And the result is coal. And the effect, though not designed by the environmental movement, of oil prices in the \$60

and \$70 a barrel range is tremendous increase in the amount of coal that the world is—do we want to discourage oil production, which leads to higher oil prices? And is the result then that people go to alternative energy, or do they go to coal?

Mr. SOHN. I think the reality is that people will turn to coal and renewable and alternative energies. And we have to manage those technologies, whatever technology choices are made, with greenhouse gas emissions and local environmental and social concerns taken into account and dealt with as best as possible. And I think that is the role that OPIC could play. Just yesterday I was in a video conference, just for an example, on this oil issue with the Energy Minister of Ecuador. And they have decided in some of their most sensitive areas to call for a 1-year moratorium on oil development. And as part of that call, they are looking to the international community to help support them with financing of clean energy. And this is in large part driven by their concerns about climate change. So I think it is an interesting development, and it is very illustrative of how the dynamics are starting to change, because the world is becoming more and more concerned with climate change.

Mr. SHERMAN. Yes. I mean, anybody who stands up and says, let's produce and burn 100,000 fewer barrels of oil a day is applauded in the environmental community as doing something for global warming. But it would be interesting to then get the economic analysis as to whether half those BTU's not created by oil are created by coal, because half the BTU's created by coal are all the carbon created by the oil. So if, for every barrel of oil not produced, half those BTU's are created by coal and the other half by alternative energy, at least in the short term, you have created just as much carbon. Now maybe by incentivizing new scientific developments long term, you are doing some good, but it is complicated to be a policy maker in a world where everybody wants to drive and no one wants to emit any carbon. And I look forward to getting guidance from stronger minds as to how to accomplish that.

I thank you, gentlemen, for your presentation. I am looking for you to give us, not general guidance, but proposed statutory provisions and to reflect not only your personal views but each of you in effect represents one of the four communities of interest in OPIC that we have been able to identify. And the more specific the input that you are able to round up from the people that you work with, the more useful it will be. Thank you very much.

[Whereupon, at 10:27 a.m., the subcommittee was adjourned.]

